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ABSTRACT

How and why private and "private equivalent" resources (i.e., discretionary funds) have played such a large role in higher education in the United States, and how that role can continue to be performed in the financially troubled future, are outlined. Chapter One describes the "postponed crisis" precipitated by the end of growth in higher education, and asks where the financial resources for survival will be found. Chapter Two examines trends in private philanthropy and public funding. In Chapter Three the issue of accountability is addressed: it can take the form of accountability to the past, the present, or the future. It is proposed that higher education can serve both conservative and opportunistic functions. The principle of accountability is applied in Chapter Four to changes in public funding priorities: it is proposed that emphasis in publicly funded programs has shifted from the future back to the present. Chapter Five considers the scale of the discretionary fund problem, in both public funds and other institutional income. Some trend data are provided. Divergent trends are seen in the public and private sectors: in public institutions discretionary funds decreased as a share of the total institutional budget, and the opposite trend has occurred in private education. Restoring financial autonomy is the subject of the final chapter. The roles of state and federal governments are discussed, and the specific challenges outlined. Charts showing support trends since 1967 and tables with data on private and public funding are appended. (MSE)

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THE VENTURE CAPITAL OF HIGHER EDUCATION

The Private and Public Sources of Discretionary Funds

MARTIN KRAMER

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AN ESSAY WRITTEN FOR THE CARNEGIE COUNCIL ON POLICY STUDIES IN HIGHER EDUCATION

Martin Kramer
Carnegie Council on Policy Studies
in Higher Education

THE VENTURE CAPITAL OF HIGHER EDUCATION

The Private and Public Sources of Discretionary Funds

An Essay Written for the Carnegie Council on Policy Studies in Higher Education

THE VENTURE CAPITAL OF HIGHER EDUCATION
The Private and Public Sources of Discretionary Funds
by Martin Kramer

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Foreword

When foreigners first become acquainted with American higher education, they are usually struck by two things. First, they are struck by the vitality of an enterprise in which initiatives springing from such a vast number of sources result in varying adaptations to the needs and potentials of American society. Second, they are struck by the relative financial independence of American higher education from government—the availability of funds from many types of supporters, past and present, whose gifts and tuition payments allow American colleges and universities to make many important choices autonomously. These two features of the American system are, in fact, closely related. A history of private support has had much to do with the emergence of the distinctive features of American academic life. The Carnegie Council and the Carnegie Commission before it have commented frequently on these features. In many of our reports we have considered how these features can be best preserved in an era of increasing dependence on government resources. In this essay Martin Kramer of the Council staff attempts to outline how and why private and "private equivalent" resources have played such a large role and how that role can continue to be performed in a financially troubled future.

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Chairperson, Carnegie Council on
Policy Studies in Higher
Education

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Section 4 of this essay draws heavily, both for background and anecdote, on studies of governance and funding patterns in a number of states made for the Sloan Commission on Government and Higher Education. These studies and their authors are not cited individually for reasons of confidentiality. I would like, nonetheless, to indicate my appreciation of their candor and astuteness.

MARTIN KRAMER
Senior Fellow

1

The Postponed Crisis

Until well into this century, American higher education depended for its support primarily on gifts, endowments, tuition, and fees. This was much less true for public institutions, but until about 1950 public colleges and universities accounted for less than half of total enrollments. The large role of private resources affected the kind of higher educational system we inherited. It was a diverse system, reflecting the distinct educational premises of many different group and individual founders. The institutions of the system, public as well as private, exercised and valued a remarkable degree of autonomy—from governments, from peer institutions, and from parents and students. They were free to respond with their own programs to new goals and problems. This set of characteristics distinguishes the American system of higher education from other national systems, which have not looked to private support to the same degree.

The role of private support declined in the 1950s and 1960s, but American higher education did not lose the desirable characteristics that private support had fostered. Some people, seeing the continued diversity, autonomy, and flexibility of the system, may have concluded that the importance of private support had been overrated. What seems to have happened, however, is that the rapid growth of the system in these decades had two effects that temporarily cancelled out each other. On one hand, the financial role of government increased greatly, causing a relative decline in the private role. On the

other hand, the expansion of the system proceeded so rapidly that public funds "behaved" more like private funds than before or since these years. The controls that went with the added public funding were often quite mild. State governments sometimes solicited ideas for innovation much as private foundations do, and the major federal research agencies consciously adopted foundation methods of judging grant applications. Excellence tended to be the main criterion for public funding, at least at the university level, and the academy itself seemed best qualified to say what constituted excellence.

Even the financial mechanics of growth had a part in making public funds behave like private ones. Public funds were often appropriated to finance growth before the growth itself could occur. Funds for faculty not yet recruited for one department could sometimes be used to add faculty to another, almost as if the funds came from an unrestricted private gift. Funding formulas were permissive as often as they were restrictive in their effects. Overhead allowances on research grants were increasingly generous and could be used to finance growth in departments other than those in which the research was conducted. Enrollment-driven formulas generated new faculty places, which the institution itself allocated.

Because public funds behaved so much like private funds in this period, public and private institutions became more alike. Public institutions were usually larger than private ones, were much less likely to be single-sex, and could not, constitutionally, have a religious affiliation. Nonetheless, public institutions could use public funds to compete with private ones in providing the programs and perquisites that sought-after students and faculty were expected to want.

The Implications of the End of Growth

The end of the era of growth in the 1970s changed this state of affairs. By itself, the end of growth meant an end to autonomy in allocating slack funds, since there tended to be few such funds or none. In addition, rapid inflation meant that the money the legislature appropriated for the coming year would almost certainly be too little, and could hardly ever be too much. Formulas began to hurt rather than help. Real overhead costs increased

as the requirements of facility maintenance, central services, and administration caught up with the greater scale of expanded institutions. New faculty positions were increasingly unavailable to adjust the size of departments to match relative enrollments, leaving some departments overstaffed according to applicable formulas.

The cessation or slowing of growth had other consequences, almost as inevitable, if not as mechanical. State legislatures either wanted more control over this huge area of public spending, or they wanted someone else to take control. In either case, there came to be far more state-level officials with the assignment of making informed judgments on the relative worth of different programs, which included asking for information on policies and plans and suggesting ways of giving weight in budget allocations to the statistics they developed.

The end of the era of growth has thus left us with a situation in which private resources cover a smaller proportion of total institutional outlays than they did before the era began. Concurrently, public funds have become much more important and have lost, or are rapidly losing, much of the flexibility they had while growth was occurring. Accordingly, it is now, and not during the period of rapid growth, that the diversity, autonomy, and adaptability of the system may diminish, and now that steps need to be taken to preserve these distinctive qualities of the American system.

Theoretically, this preservation could be accomplished in several ways. Private giving could grow enough to restore its proportional role to that of, say, the 1950s. Budgeting systems could be adopted by institutions and governments that would permit institutions to act autonomously in more areas or with respect to a larger portion of public funding. Intermediary funding institutions—essentially, public foundations—could be inserted between the government purse and the institutions. If the public could be persuaded to accept broad rather than highly specific accountability mechanisms—which, in the academic view, would be in its own enlightened self-interest—much could perhaps be done to reconcile a greater public role in financing with the desirable traits fostered by the tradition of private support.

The purpose of this essay is to elaborate on and document the above story. The story itself is not really conjectural, although precise and aggregative estimates of the amount of truly flexible funding enjoyed by institutions at any one time involve much guesswork. What is least certain about the story is the outcome. How serious is the present threat to diversity and autonomy? Should it be called a threat at all? Will those who make public policy take the problem seriously and exercise both forbearance and ingenuity in order to minimize it? Are private donors willing and able to reduce the degree of future dependence on public funds? Can academic administrators themselves find effective new ways to make public funds behave like private ones? No one is likely to be able to answer these questions with any assurance until we are well into the 1980s.

The Creative Health of Institutions

The topic of this essay is finance, but the concern is not so much with the financial health as with the creative health of institutions. A thoughtful literature has developed in recent years on the resources institutions need for short- and long-term survival and the financial health (or lack of it) consequent on dependence on particular sources of funding (see Frances and Coldren, 1979). The literature deals especially with the financial prospects of private institutions. The aim here is not to sidestep these topics but rather to ask questions about the margin of financing that makes possible robust health over and above sheer survival. Such a margin has usually been provided by private funds and by public funds used on similar terms. These sources supported the robust creativity of both private and public institutions in the 1960s, and the lack of enough of them is one part of the perceived malaise of both private and public higher education in the 1970s.

In the view taken here, public and private institutions have somewhat different tasks in securing their creative health. The survival of public institutions is seldom threatened, even in bad times, but they need to find the resources—either private funds or public funds usable as though they were private—that will allow them to adapt, take risks, and give operational expression

to autonomously developed ideas about what they should strive to accomplish. Otherwise they run the risk of becoming publicly owned utilities, unable to make the creative contribution that the people of the states expect of them along with their strictly service functions. Private institutions, on the other hand, are finding that the costs of survival are preempting more and more of the private resources on which they depend. Despite regulatory intrusions, it is not their fundamental autonomy that is in question, but how they can find the money to do something with their autonomy, which needs to be exercised if it is not to atrophy.

The need of public institutions for private funds is just as serious as that of private institutions. While private institutions require such funds to sustain their financial health and to give them sufficient discretionary resources to maintain independence, public institutions, though less dramatically threatened, also need private and private-like funds so that they will be able to make independence a practical modus operandi. In making their respective requirements known to the public, public and private institutions sometimes seem to be in competition. But private institutions benefit also when public institutions succeed in raising the level of public awareness of the need for autonomy, and vice versa.

The Urgency of New Financial Resources

Although financial survival per se and the need for a dramatic rescue of institutions from extinction are not the subjects of this essay, the story is still something of a cliffhanger. If it is true that now, unlike the 1960s, public funds much less often provide support for autonomy, flexibility, and creativity similar to that afforded by private financing, then a compensating increase in private funds or in new types of public funding functioning as private funds becomes extremely urgent. Unfortunately, donors may understandably be somewhat cynical in reacting to such a claim of urgency. They heard many funding appeals in the 1960s based on the need for giving to support the autonomy of colleges and universities. In fact, autonomy seemed to thrive in the 1960s, whether or not an institution

was the recipient of major private funding. On the hypothesis presented here, that perception of the situation is justifiable: public funds were then ample and not that different from private funds in their usefulness to institutions. Those conditions have now passed, and an increase in private funding has become genuinely urgent, but, because of the earlier appeals, current protests about the need to uphold the autonomy of institutions may sound like cries of "Wolf!"

In fact, the present situation must be regarded as extremely serious, even if the hypothesis about the changed role of public funds is discounted. The net constant dollar total return on endowment funds has fallen precipitously because of inflation and the no-win securities markets of the 1970s. For example, an analysis made a few years ago by Stanford University showed that apparently very modest "pay-out" rates for calculating spendable endowment income were actually far too high if endowment was to continue to play roughly the same proportionate role in university finance that it had historically. The fixed income securities in an endowment portfolio often have not even paid for themselves, in the sense that interest yields—even double-digit ones—do not allow the preservation of capital, let alone current expenditures, when the rate of inflation is even higher. All of this may change, and perhaps quite rapidly: strong arguments have been made, and are apparently being heard in high quarters, that returns on investment must be real and substantial, even in the face of inflation, if inflation itself is ever to be subdued. But when inflation is eventually conquered and a survey is made of the damage it has done, college and university endowments will be among the more conspicuous disaster areas. Individuals and corporate donors who have recovered from the inflationary years will hear urgent appeals for help, and they will be genuine.

Two other pervasive factors will be contributing to the urgency—and, again, quite apart from the validity of the hypotheses of this essay. One is rising marginal costs. If colleges and universities survive the drop in enrollments that is in the demographic cards for the 1980s, and if they survive with their identities intact—that is, are not absorbed in mergers—then they will

typically have to spread relatively fixed costs over fewer students. Any constant level of endowment or current gifts per student will cover a smaller share of costs per student.

The other factor is age—that of faculty and facilities. Older faculty cost more. They expect and get higher pay, and they may need more academic support services as well. Older buildings and laboratory equipment are expensive in a different sense: theirs is the cost of obsolescence or inappropriateness to the creative potential of students and faculty. Whether or not the high levels of investment in new facilities and faculty typical of the late 1960s are attributable to the availability of public funds that functioned like private ones, they were very high levels indeed. The costs of the aging of those investments will be immense, and the charge on institutions' current discretionary resources, whether through replacement or supplementation of older investments, will be more than can in any obvious way be sustained.

Who Will Be Able and Willing to Give?

Where can higher levels of discretionary resources be expected to come from? Wealthy individuals and the foundations they create will continue to be major contributors, but they are obviously affected by the same factors that have brought about the shrinkage of institutional endowments, and sometimes to the same degree. The churches will no doubt continue to do what they can, especially when the private institutions they have sponsored are threatened. However, fending off such threats may exhaust most of the effort religious denominations can make. Alumni and corporations would seem to be the main hope. They have been battered by inflation and energy prices along with everyone else, but they make their gifts mainly from approximately current earnings, which tend most nearly to keep pace with inflation and which stand to benefit most immediately and directly from a revival of productivity in the economy.

The probable increasing dependence on corporations for discretionary funds makes the terms of accountability to these sources an especially sensitive matter. In hindsight we can see that corporations were remarkably forbearing in the 1950s and

1960s in that they rarely asked for a detailed prospectus before contributing funds to colleges and universities. They, even more than the major private foundations, were usually content to accept broad statements about the missions of the beneficiary institutions and the goals of particular programs. In recent years an increasing share of corporate giving has taken the form of matching the donations of employees, an even less intrusive mechanism than grants to institutions selected by the corporation. As a result, the beneficiaries have been accountable mainly in terms of their success in achieving overall excellence in education, research, and scholarship. As recently as 1977 a Louis Harris survey reported that administrators, trustees, and senior professors preferred increased dependence on corporations to increased dependence on government by a margin of 72 percent to 16 percent (Malott, 1978, p. 137).

Several factors are shaping a new attitude among some corporate donors:

1. The embarrassments, actual or anticipated, of too casual a pattern of giving
2. The erosion of the kind of almost universal public consensus about the value of higher education that corporations like to have behind them when they venture beyond purely business interests
3. The example of the major private foundations in closely scrutinizing applicant purposes in order to stretch and gain greater leverage for their grant dollars
4. The apparent misunderstanding of a capitalist economy shown by many of the students and faculty who have chosen to support the new causes of the 1960s and 1970s.

All of these have been urged as reasons for a new selectivity in corporate grant-making to colleges and universities, and it is an easy step from selectivity of support to strict accountability for expenditures. How else can the corporation know that its funds are being used for the selected purposes and not for others?

However, before this new attitude is enshrined in corporate policy, it also should be critiqued. Suppose a corporation decides to develop a new product. If it believes that it can best

do this by closely managing the use of resources—in, say, a research effort—then surely it will try to conduct the activity through its own instrumentalities. Because, however, there may be some types of activity in which the corporation does not have expertise or which require people and an environment that it cannot provide, it may choose to sponsor the development activity through another firm. In this case it would be folly to stipulate that the other firm change its personnel and operating style.

Yet this is roughly what a corporation would be doing if it made its gifts to colleges and universities subject to narrow criteria of accountability. If internal corporate programs would suffice to advance basic knowledge or to educate young people for knowledgeable participation in the society, a corporation would do these things itself. It is because universities are better equipped to attain these goals that gifts to universities are appropriate. It would be self-defeating for the terms of a corporate gift to set aside the university's ways of advancing knowledge and educating young people, because these are precisely its comparative advantages. A gift to a university carrying rigid stipulations in effect turns over control of the sponsored program to the university comptroller's office. Bypassed are the processes decorously called "governance," whereby universities decide how to invest their venture capital. And these are the very processes that seek to maximize the quality of results achieved by the academic enterprise. In a business corporation the stockholders are concerned with maximizing the long-run profit potential of the enterprise, and the management that has their mandate accordingly avoids penny-wise, pound-foolish decisions. The governance structure of a college or university is the nearest thing it has to such a management. It is therefore folly to want a university to do something and not to let the university's governance structure function autonomously.

The above reasoning applies more or less equally whether it is the narrow or broad self-interest of the corporation that is in question. If corporations wish, by their donations, to foster technology or economic education, they turn, sensibly, to universities. It would not then be sensible to say that the activities sponsored must be conducted in ways quite alien to universities.

2

Initiative and Private Resources

Until quite recently, the history of American higher education was one of increasing distance between the providers of funds and the initiators of new programs of education and scholarship. This distance has been a major factor in the evolution of a distinctive American academic style in the conduct of college and university affairs, although there have been other factors as well—the American character itself and the changing standards of academic excellence, to name two. The American academic style is most clearly represented in the kind of leadership expected of the presidents of institutions. On one hand, they are expected to be entrepreneurs, seeking the financial and scholarly resources that will make excellence possible and organizing these resources into distinctive and effective programs of teaching and research. On the other hand, American academic leaders are expected to be protective of the institution and to buffer its values and academic assets against the damage that could be caused by an often indifferent, sometimes short-sighted, and occasionally hostile world. Academic leaders are not considered successful unless they perform both the entrepreneurial and protective functions at least fairly well.

This American academic style colors the expectations, including the self-expectations, of other parties to the educational enterprise as well: faculty members, trustees, and even students.

The organized deliberative and decision-making bodies of colleges and universities are designed to deal with, and have on their regular agendas, both entrepreneurial and protective issues.

Entrepreneurship and Protectiveness

The style of entrepreneurship and protectiveness is a creation of history, and evolved along with changing patterns of financial support.[1] The colleges founded in the colonial period were extensions of the political and religious establishments of the day. The same circles decided that a college was desirable, saw that it received a charter, provided it with resources, and decided who and what should be taught. The partial breakup of the colonial establishments in the aftermath of the American Revolution and the increasing separation of church and state set the stage for a new kind of entrepreneurship in education. Religious bodies could found academies without much concern for the power of government, either benign or hostile, provided that adherents of the group could be persuaded to supply initial capital and to enroll their sons and daughters as paying students. But lack of the kind of support a powerful political and religious establishment can give exposed colleges to the influences of the marketplace, and effective entrepreneurship improved the chances of survival.

Survival often depended on moderating sectarian features of the curriculum and on distinguishing the college along other lines in order to broaden its market appeal. Philanthropic support from almost any quarter needed to be courted. Appeals to alumni proved especially effective, and this source provided a kind of financial support at least somewhat distinct from that of trustees representing the founding religious denomination. Although for a long time it was the rule for college presidents to be submissive to trustees and their officers, and true entrepreneurs were the exception, an entrepreneurial style had begun to emerge in the mid-1800s. As presidents of successful institutions became stronger, and the entrepreneurial model began to

[1] The historical summary given in this section draws heavily on Hofstadter and Metzger (1955) and Jencks and Riesman (1968).

be more accepted, faculty and students were less directly responsible to benefactors or meddling trustees. More and more, their responsibility was discharged through the formal channels of a governance structure.

Concurrently with the rise of academic entrepreneurship in the late nineteenth century, there occurred a transformation in the protective stance of academics and academic institutions. The model of a university as an independent institution capable of defending itself against outsiders had, of course, European roots. The colonists had brought with them both medieval ideas of corporate autonomy and an ideologically based suspicion of highly centralized political or religious authority. Even before the Civil War, a tradition of distrust and contempt for politicians was emerging in America. But notions changed of what it was that might need protection from outside influences. Initially it was a doctrinal position and a tradition of humanistic learning that needed protection against a world of heresy and barbarism. As these values were partially replaced in the latter half of the nineteenth century by a new dedication to science and original scholarship, the tradition of protectiveness acquired a new focus. The principles of free inquiry largely supplanted those of orthodoxy in needing defense, and it was the prospect of new knowledge rather than the legacy of received learning that had to be protected from the philistines. Orthodoxy came to be seen as an external threat, and ancient traditions of learning as resources to be preserved for the sake of the future contributions they might make rather than as repositories of final wisdom.

The developments between the Civil War and World War I widened the distance separating the providers of funds from the day-to-day conduct of the academic enterprise. Morrill Act funds were expected to serve as endowment revenues and created some independence from state governments without day-to-day dependence on the federal government. The new industrial magnates often made their enormous gifts with the assumption that they thereby acquired some right of interference, but they were ordinarily more interested in issues of grand

design than in details of budgets and expenditures. The Carnegie pension scheme provided a sufficient incentive for many institutions to loosen ties to sponsoring religious denominations. At the same time, the new cosmopolitanism of the period reduced allegiance to the local and parochial standards of the surrounding community and legitimated a sense that the primary allegiance of an academic professional was to his discipline, never mind the source of funds that paid his salary or subsidized his research. Whether the attractive cosmopolitan model of the university was English or German, it was imported minus the concepts of accountability to church and state that had characterized it on its home ground. In the new climate, entrepreneurship was not limited to college and university presidents. Professors were sometimes recruited to join new institutions and given a mandate to create whole new departments, and a degree of entrepreneurship and initiative was increasingly expected of all university faculty. The vigilance of academics in this period in discerning threats to academic freedom coming from the providers of funds should not mask the fact that real distance had been established. The professor of 1910 was not much like, and did not see himself as being like, the submissive schoolmaster of, say, 1830.

Recent Trends in Philanthropy

The main developments in philanthropic support for higher education in this century have, if anything, increased the distance between the sources of funds and academic initiative and decision making. The growing importance of foundations has meant that a major source of grant funds—accessible to individual faculty entrepreneurs as well as to institutions—now exists that provides an additional buffer between the large donor and the academic activity for which his gifts provide the ultimate support. The growing importance of alumni-giving programs has meant that less rides on the decision of the average donor. As a group, alumni are often united only by their association with a particular institution, unlike benefactors who have a particular religious affiliation or community tie. Alumni can occasionally

be united on a particular agenda for the institution and can acquire an effective veto over its actions. Usually, however, competent academic leadership succeeds in defusing issues that might have this result, and can rely on the fact that the biases of individual alumni will often be in opposite directions, tending to cancel each other out. Finally, the growing importance of gifts designated for student aid has meant that the policy neutrality of the bursar's office is inserted between the donor and particular academic programs. The donor does not give to support a program but to aid a student who, by paying tuition out of his grant funds, provides general and unrestricted budget support.

In this century the important types of philanthropic assistance have thus become more numerous and therefore individually less likely to obtain dominance over academic decision making. Further, the shares of private support from different sources have become remarkably stable. Cheit's data, prepared for the Filer Commission and updated in Appendix A, demonstrate this stability (Cheit and Lobman, 1977). The significance of this stability is that the terms of accountability for private philanthropic funds are subject to very little change from year to year and that the rules of academic entrepreneurship are therefore fairly constant also, as far as seeking and using private resources are concerned. There is no similar stability in accountability for public funds—hence the enormous drain on academic energies involved in keeping up with changing rules.

The American Academic Style and Public Funding

The American academic style has many virtues. It is extraordinarily creative. It can accept innovations and resist fads. It is highly conducive to academic freedom. It adapts well to specific circumstances, asking what can be done in a particular institution to enhance the education of its particular students and the productivity of its particular faculty. It works well with government when government offers opportunities and incentives congenial to the entrepreneurial spirit.

It is not so good, however, at adapting rapidly and smoothly when general performance standards are imposed from

without, when entrepreneurial approaches are consistently impeded, or when its own deliberative organization is effectively overruled. It then responds with an exaggeration of the protective aspects of the style, and its creative and responsive qualities may become dormant or atrophy. This is exactly what has tended to happen as the consequences of greater dependence on public funds have become clearer. Exaggerated protectiveness did not immediately follow from the accelerating dependence on public funds in the 1950s and 1960s, however. A lag occurred because, sometimes knowingly, sometimes unknowingly, the public authorities that were financing more and more of higher education often gave funds in those years on terms similar to those of private sources. But the traditional distance separating the providers of funds from the day-to-day conduct of academic business, which had evolved over many decades, then began to contract, since the purposes of public programs were increasingly incompatible with the notion of such distance. When states such as Texas and California endowed their universities in the nineteenth century, they appear to have accepted and valued institutional autonomy. But public support in the late 1960s and early 1970s had quite another character. Federal auditors—as distinct from those hired by the president and trustees of the institution—were empowered to examine, and to make judgments about, the use of research grant funds to buy equipment and to compensate staff. The effect of autonomously developed admissions standards on the enrollment of disadvantaged groups came within the jurisdiction of the federal Office of Civil Rights, as a condition of receipt of any federal funds whatsoever. State officials came to take it as part of their province to set rules for minimum class size, class scheduling, campus conveniences such as parking, and the duplication of academic programs.

This was not mere meddling and could not be dismissed or circumvented as such. Rather, it represented public concern for the social purposes of higher education and for whether students were getting the opportunities intended, whether there was fairness between students and between institutions, and whether public funds were being used efficiently. In demanding

accountability in such terms, the public authorities would go through the regular governance structure of an institution if they could, but if need be, they would go around it.

If all of this had been done in the name of a religious or ideological orthodoxy, the reversal of trends over a hundred years old would have been obvious. That it was done, rather, in the name of social legislation and fiscal responsibility did not make it any more congenial or manageable for academic administrators and faculty. The skills of academic entrepreneurship are not well adapted to working at such close quarters with public officials and their expectations. The particularistic values of the American academic style and the ad hoc creativity and efficiency they foster are hard to translate into the terms of an essentially bureaucratic preoccupation with the equities of uniformity and input-output conceptions of efficient process. Such an orientation not only thwarts the entrepreneurial spirit but also causes the protective aspect of the American academic style to overreact even as it is disarmed. Traditionally, the principle of private benefaction has been that funds are given to support purposes that academics themselves are to interpret and specify in their day-to-day entrepreneurial and protective activities. The principle of public benefaction now seems to be that the funds themselves are the instrument of the public purpose; that is, they are intended as levers of control. If this is really the position of the public providers of funds, then the painfully won distance between the source of funding and the conduct of academic affairs is not just abbreviated; it is more or less annihilated. In that event, we can hardly expect the traditions built on the assumption of such distance to serve very well. Whether public benefaction must be on a basis so inconsistent with the American academic style remains to be seen.

3

Accountability to the Future

Money is fungible. Why, then, are dollars from private sources different from public dollars in the financing of higher education? Why do private dollars seem more precious than public ones, at least when private dollars are in relatively short supply? How has it happened that greater reliance on private sources of funds in the American experience has led to a higher education system different from those of other developed countries?

Part of the answer is that private funding has been the vehicle of pluralism. Just as consumer sovereignty has resulted in the production of a great variety of goods, in no fixed proportions and with different combinations of attributes, so private funds have been used to found and sustain many kinds of institutions and programs, in no preconceived ratios and differing greatly or only slightly from each other. This was the contribution of private support in the great period of the founding of institutions.

However, this contribution of private funding to the diversity of the system is by no means all of the story. Except for community colleges, few new institutions are being set up now. And for some time, much of the best effort of educators has been devoted to making their institutions excellent in similar ways, rather than in different ways. Yet private funding is still

seen as especially desirable. What else, then, does private funding provide, besides a vehicle for pluralism?

It is best to try to answer this question in a comprehensive and even theoretical way, because a further question needs to be dealt with: to what extent and in what circumstances can public funding provide support with the same valuable characteristics as private funding? The argument presented in Section 1 of this essay is that it sometimes has provided such support, namely, in the 1960s. According to the same argument, spelled out in more detail in Section 6, it may have to again, unless enormous amounts of additional private funding become obtainable. To keep the focus on what has been inherently valuable about private support, and on what public providers of funds could do to provide support of similar value, it is desirable to abstract from all the more accidental characteristics of private funding. This approach will help also in considering the extent to which different kinds of private support can substitute for each other, such as tuition revenues for alumni giving.

A concept basic to an understanding of how public and private support differ is accountability. It would be a mistake to think of colleges and universities as not accountable at all for private funds. They have fiduciary or contractual accountability for almost all such funds, and the courts can intervene to enforce these responsibilities, just as much as if the funds were public.

Accountability to the Present

The differences between the accountability for funds from different sources can perhaps best be put in terms of a conjugation of present, past, and future. Accountability for public funds is, in practice, overwhelmingly a present, or at least very immediate, accountability. Governments tend to want to see the results of their expenditures right away—buildings built, utilities bills paid, faculty compensated, and students supported by aid. It is no longer customary for American governments to endow institutions (although they sometimes did in the nineteenth century, for instance, in the land-grant acts and in the donations of California and Texas to their universities), nor is it customary to commit governments to expenditures in future years.

Federal and state funding formulas abound, but they never take the form, say, of promising future support based on future graduate record scores or Nobel prizes. There may be good reasons (though not necessarily good enough) for the emphasis on accountability in the present. Many of the needs addressed by federal and state legislatures are immediate, and requiring accountability for higher education expenditures in similarly immediate terms helps to make government allocative choices more comparable. Moreover, in present accountability there is an avoidance of commitments binding on successor legislatures, congresses, and administrations, which may be viewed as valuable in a democratic scheme of things.

Accountability to the Past

Accountability to the past is most conspicuous in endowments and dedicated funds. The purposes of such gifts can be narrow and the conditions imposed on expenditures very restrictive. For the following reasons, however, institutions seldom find their hands seriously tied:

1. The law of trusts limits the absurdity and irrationality of conditions a donor can impose.
2. Donors (if still living) can usually be persuaded to see that flexibility will be needed in the use of a fund that they wish future generations to be grateful for.
3. Endowments for specific purposes can often give the institution discretionary funds, if the purposes are within the understood mission of the institution. Endowment funds can then be substituted for the unrestricted funds the institution would have spent to achieve these purposes, freeing the unrestricted funds for other uses.
4. When an endowment imposes a new mission on an institution, it will often be a quite acceptable one, increasing the balance and scope of the institution's programs. Moreover, large donors are likely to have rather conservative ideas of academic excellence for the long term that are not too hard to reconcile with those of institutions.
5. The conditions attached to government aid often apply to all funds from that level of government, which, as a

whole, are a life-or-death matter for an institution. However, an institution can usually afford to reject an entirely inappropriate private gift because the accountability the donor seeks to impose applies only to that gift. The gift will usually not be of such a size or needed so desperately that rejection threatens the survival of the institution.

For these reasons, the dead hand of the past turns out to have rather a light touch. There is an apparent paradox here: accountability to the past, in practice, tends to be more like accountability to the future than to the present. Colleges and universities welcome accountability to the past precisely because they are so future-oriented.

Funding With a Future Orientation

Accountability to the future is both more and less exacting than accountability to the past or present. At issue is whether an institution will do well enough with what it has to be deemed worthy of additional support in the future. It is an exacting kind of accountability because it demands success. Excuses are heavily discounted. Still, there is presumed to be a good deal of freedom for the institution to choose the means to achieve the goals for which it will be held accountable, and the goals themselves will be specified (if at all) very broadly, in terms of excellence and service, with further definition to be supplied by the institution itself.

Accountability to the future is the kind of accountability that most characterizes alumni giving. Alumni do not expect to have a right to scrutinize current institutional outlays in detail, nor are their gifts usually conditional, although they are sometimes designated for particular purposes or particular departments. But whether alumni will continue to give, and at what levels, depends on how well the institution appears to be doing. A well-publicized decline in literacy or civility among students may reduce future alumni gifts, while distinctions earned by students or faculty may increase them. There is a double reason why alumni giving tends to be future-oriented. Alumni give, in part, because they wish the institution for which they have particular respect and affection to perpetuate into the future the

traditions they admire. But they give, also, because they often see themselves as parents or grandparents of potential students of the institution.

On balance, colleges and universities probably prefer accountability to the future to either accountability to the past or accountability to the present. Flexibility in choosing the means to the ends counts for much. Most important, perhaps, faculty, students, and administrators are themselves future-oriented. Their future achievements are what they want to be judged by. Next most desirable is fiduciary accountability to the past, because of the great flexibility it carries in practice. Least desirable is accountability in the present, because it verges on accountability for day-to-day actions and because it can be the vehicle for direct control.

Much of the special desirability of private funding, and much of its influence on the shape of American higher education, stems from its emphasis on accountability to the past and the future. The grants of professionally staffed foundations are awarded with a view to long-term payoffs, with characteristically few short-term stipulations. It is partly because religious groups have taken a long view of the contribution of education to a better world that they have been willing to lend support that has seen many institutions through otherwise bad times. Much the same can be said of the individual philanthropists who have created great endowments.

The emphasis of private gifts on flexible forms of accountability to the past and the future is not an inherent necessity. The terms of endowment gifts sometimes address ephemeral problems to be solved in a specific way. Church groups can show excessive interest in day-to-day matters, particularly disciplinary ones. This year's football success can affect the giving of some alumni. Nonetheless, accountability for private gifts tends to be to broad goals which are, or can be interpreted to be, the performance-oriented goals of the institution itself as it autonomously shapes its own future.

On the other hand, public support can sometimes be provided on terms more usual to private gifts. This seems to happen most frequently when what the government wants most cannot

be measured in the present, as in the case of the scientific productivity sought in federal research grant programs. It also tends to happen when the governmental purpose is emulation—for example, when a state sets itself the goal of having a university equal in prestige to those of other states. Such rivalry provided a powerful motive in the 1960s. Undoubtedly, many academics, lulled by the coincidence of their purposes with those of the state and by the permissiveness of public accountability, were inclined to think that the forms of accountability did not matter much. Consequently, in the 1970s they were often unprepared for a reassertion of accountability in the present, for instance concerning hiring practices and details of the use of governmental funds. Much of the shock and resentment about regulatory intrusion can be seen as a reaction to a change in the fundamental accountability rules.

Incremental Accountability

Tuition revenues are a special case on the above analysis. They are private funds, at least the part of them that is paid by students and parents out of their own pockets. They represent a future orientation in that students generally do not care about the details of an institution's budget, but rather about getting an education that, in their future careers, they will be able to put to the purposes they have in mind. But students hold institutions accountable in the present also, and they may drop courses, change majors, or leave the institution altogether if its day-to-day performance does not measure up to their expectations. Accountability for tuitions is, on balance, too much in the present to make it as desirable a source of support as private gifts.

Even so, tuition revenues are an attractive resource. To explain why, we need to give weight to another principle distinguishing different forms of accountability. When there is separate accountability for discrete amounts of revenue, each of which is small relative to total funding, then the cost of rejecting externally imposed terms of accountability is also relatively small in the particular case. An institution dependent on such a source of funding has the autonomy to modify its standards

and goals incrementally at the risk of corresponding decrements in funding. Tuition charges and regular alumni-giving programs are just such sources of support. Each student payment and each alumnus gift are small relative to total revenues. Government funding is generally not incremental in this way, or at least not without major qualifications. Federal research grants certainly come in discrete increments for which individual researchers are accountable (to the future), but there is also accountability for the totality of grants in terms of hiring practices, contracting, and the like. Under federal and state capitation support formulas, each student enrolled certainly affects the amount of funds received, but whether the institution gets *any* funds under the formula depends on compliance with non-incremental requirements.

It is not hard to see why incremental accountability, if it can be called that, is considered so acceptable. Institutions do not want to gamble with their entire survival. The risks they prefer to take are precisely the incremental kinds allowed by incremental accountability. It is therefore highly supportive of the degree of autonomy institutions find practically useful.

If a future-oriented accountability (or an accountability to the past which is largely indistinguishable) is a reason why some kinds of private support have been so valuable a force in shaping American higher education, and if incremental accountability is a reason why other kinds have been valuable, then it is not privateness per se that is important. Government support can, in principle, be future-oriented and incremental. Indeed, it has been so at times. Research support and the GI Bill are clear cases, though clearer formerly than now. Other existing programs could be modified so as to move them along the spectrum toward an accountability that would increase the aggregate of autonomous behavior. New programs could be designed that would take as their starting point the need to encourage such behavior.

Yet it will be difficult for governments to encourage autonomous behavior. Congressmen and legislatures face an accountability of their own, at the polls, and they can therefore be expected to improve the accountability rules only if the public

will support improvement. If there is to be more accountability to the future than to the present, and more acceptance of incremental incentives in public policy toward higher education, there has to be wide public understanding of the highly future-oriented goals of higher education and of the need for autonomy in the pursuit of them.

Conservative and Opportunistic Functions

What the public and legislators need to understand is not that all funds for higher education should be given to academics to be used at their absolute discretion. Few would argue any such thing. The point is rather that there really is an area in which academic judgments, individual and corporate, are likely to be better in the long run than the judgment of government officials, however sophisticated. A college or university thrives as a center of learning by doing two things that seem contradictory when divorced from the context of day-to-day institutional affairs. On one hand an institution tries to keep vital those disciplines, methods, and educational traditions that are sensed to be irreplaceable sources of its intellectual life. This effort causes colleges and universities to be seen as highly conservative, which, in a sense, they certainly are. Conservatism is the function corresponding to the protective aspect of the American academic style. On the other hand, there is a more or less constant effort in a college or university to combine and recombine these conserved resources in new ways in order to exploit the possibilities of cross-fertilization that occur. This is the opportunistic side of these institutions, a function of the entrepreneurial aspect of the American academic style.

Both functions, the conserving and the opportunistic, require intimate, day-to-day assessments of the needs and potentials of faculty members, students, and programs, together with long-range assessments (sometimes simply hunches) about the course of research and scholarship in the future. Because the day-to-day assessments must be so ad hoc and the long-range assessments so vague, they cannot be performed by remote government agencies—or by voters for that matter—except in caricature. For a college or university not to have resources it can

commit autonomously to both the conservative and the opportunistic functions is crippling. It is in this regard that private or private-equivalent funds are essential.

Both of these functions fall under what Martin Trow has called the autonomous functions of universities (see Trow, 1970 and 1975). They stand in contrast to what he has called the popular functions—the services that institutions are asked to provide society and its members to their specifications. It is entirely appropriate that society should pay for these services, that it should know what these services cost, and that it should know they are being provided with reasonable efficiency. For such services, the appropriate standard of accountability is often accountability to the present, although this standard can be interpreted in ways that are penny-wise, pound-foolish, even for this area.

Public authorities have asked for a higher and higher level of services from public institutions, for which the public has paid. This is what caused the extraordinary growth of the public sector. We are now seeing the influence of an implicit, and therefore unexamined, argument that, since these funds for service functions can appropriately be subjected to accountability to the present, then all public funds can be, simply because they are provided to public institutions. There are two flaws in the argument. First, not all of the functions of public institutions are popular or service functions. Some are properly autonomous and can only be frustrated if primary accountability is to the present. Second, even service functions, when performed on the traditional college or university model, need some of the flexibility of the autonomous function. Community colleges, for example, have increasingly been built and funded mainly for the sake of service functions, although their origins are in the liberal arts tradition. They do not share much in the conservative side of the autonomous functions; they are not, for example, charged with deciding whether classical scholarship should survive, and they are not usually responsible for maintaining classics departments. But they do share in the opportunistic side of the autonomous functions. That is, they are constantly thinking about ways to combine and recombine

their resources in order to provide new and better services. Thus, they too need the flexibility of being primarily accountable to the future. Trow's distinction between autonomous and popular functions is in fact *functional* and not merely a matter of defining a preserve or sanctuary for academics.

It is not possible to earmark with any precision the funds spent for autonomous and popular functions. This is partly because dollars are indeed fungible, and partly because the same people and other resources often are and should be involved in both sets of functions. The same professor who teaches a service course by day may participate in an ad hoc seminar by night, and a portion of his salary and of the light bill are attributable to each activity. Consequently, it is not feasible to have a "posture statement" of the kind developed in the Department of Defense and to use it to identify separately the resources needed for the autonomous and popular functions. It is hard enough to draw the related distinction between discretionary funds and other funds, as attempted in Section 5 and also, in a different way, in Appendix B. Nonetheless, although estimates of resources needed are extremely difficult to make and to place confidence in, it is still true that institutions need to receive some of their financing in ways that will permit the funds to behave as private funds typically behave. This is so even if the institutions in question are public ones taking their public responsibilities in all seriousness.

4

Fat Years and Lean Years

A basic assumption of this essay is that important shifts in accountability for public funds allocated to higher education have occurred over the past two decades. In the earlier part of the period the measures of whether such funds had been well spent tended to assume a long view of what was effective and excellent in research, education, and public service. The emphasis was on what has been termed here "accountability to the future," a kind of accountability congenial to academics themselves, and similar to their accountability for private funds. In the later part of the period, however, there was increasingly a shift to accountability to the present—that is, to a preoccupation with whether institutions were using public funds in the way expected on a day-to-day basis.

It is obvious that this shift has affected federal research grants. The trend in federal policy has been to emphasize applied research rather than basic research, bringing closer the time horizon of accountability to the future. Plainly, also, audit requirements have become more stringent and have increasingly constrained the freedom of investigators to decide how best to use federal money to advance their research objectives. Explicit federal efforts to standardize the accounting methods that determine indirect cost allowances cannot help but restrict the

freedom of entire institutions—and not just individual researchers—in choosing their financial management approaches. Similarly, the battles over federal intrusion in the name of affirmative action have affected not just the individual researcher but the whole institution.

A contemporaneous shift in accountability for state funds toward accountability to the present has almost certainly also occurred, although it has not been consistently explicit like the federal shift. In fact, documenting the shift in state accountability in a rigorous way does not appear possible. In various states those concerned with the increasing burdens of supplying accountability data have charted the growth in the number of audits and reports involved in the process. But such statistics, by themselves, do not prove a qualitative shift in the kind of accountability expected. The typical phenomena of the preceding, more permissive, period do not lend themselves to counting at all: it is not possible to determine the number of times state authorities deferred to the future-oriented judgment of institutions or did not require reports.

It is also impossible to be precise about just when the shift occurred. Changes in the kind and degree of accountability for public funds are usually gradual and ambiguous. Moreover, they tend to be disguised by the decorum (or bombast) of the relationships between public authorities and the institutions they support. Only occasionally is a change clear-cut—as when a state abandons a line-item appropriations process, or when it decides to subject the allocation of revenue from a particular source to the appropriations process rather than to leave it to governing boards. Ordinarily, changes are much less obvious.

It is also certain that different states have had different experiences.[2] The reversal from a permissive state funding role to one exacting stricter accountability happened much earlier in some states than in others. For example, the turning point was perhaps as early as 1970 in Wisconsin but as late as 1977 in Texas—if, indeed, a reversal can truly be said to have occurred

[2]This section draws on a number of state-by-state studies sponsored by the Sloan Commission on Government and Higher Education.

yet in Texas. The entire cycle from growth to restraint seems to have been compressed in some states, Massachusetts and Washington being good examples. In other states, forces external to the cycle itself may have arrested it or greatly altered its implications. An example is Nebraska, where a decision of the state supreme court declared unconstitutional any detailed intervention in the management of university affairs by either the legislature or the coordinating board. There may also be a tendency for characteristics both of permissiveness and of strict accountability to be muted in states where tuition revenues have traditionally covered a higher than usual fraction of operating costs, as in Ohio.

In spite of the difficulty of charting trends in state accountability with any precision, it is worthwhile at least to try to describe a variety of generic phenomena exemplified to greater or lesser degree in different states, which this section will attempt to do. Some of these phenomena indicate a shift toward greater accountability to the present, while others help to explain why a clear shift is so hard to discern.

Assessing a Shift in the Terms of Accountability

Three phenomena tend to complicate an assessment of any shift in the terms of accountability:

1. The ambiguity of formula funding, when it is looked at in terms of its implications for accountability
2. The ambivalence of governance structures
3. Informal relationships that modify explicit systems of fund allocation and accountability.

The Ambiguity of Formula Funding

Formula funding systems were rarely adopted initially with accountability considerations much in mind. Rather, formulas were seen as a means of avoiding excessive competition among public institutions for public funds and reducing the excessive importance of political influence in such competition. When formula funds, once calculated, can be reallocated by the institution as it sees fit, the use of formulas can still be seen as consistent with the degree of discretion most characteristic of

private funds. Nonetheless, the idea tends to grow on legislators, budget analysts, administrators, faculty, and students that the factors in the formula represent the purposes for which the funds are to be spent. If, for example, a formula distinguishes undergraduate and graduate enrollments as factors, then it becomes easy for a graduate dean to claim a share of the money that results. Such interpretation makes a formula an obvious tool for control by coordinating boards and legislative committees. In many ways a formula is a more elegant tool than line-item allocation, allowing the achievement of any desired degree of control by the adoption of a correspondingly disaggregating formula.

Thus, a formula funding scheme that was initially permissive—merely determining the amount to be placed in an aggregate fund which the recipient institution could allocate—can imperceptibly change into a device for stipulating the end use of funds. The gradual accretion of legislative history, auditor's interpretations, and budgetary methods "compatible" with the formula scheme can transform it into a system of accountability to the present. This tendency, strong in any case, is reinforced when growth slows. This is because formulas ordinarily recognize average costs, not marginal costs. In a period of growth, an additional enrollment will bring more than enough money with it to cover the extra costs to which it commits the institution. The rest is available for the expansion and enrichment of the educational program. In a period of level enrollments this effect will disappear, and in an era of declining enrollments it may become negative if adjustment is not made for the ensuing increase in average costs. That is, there may be cuts in addition to the savings resulting from having fewer students.

The Ambivalence of Governance Structures

The second reason why it is usually hard to say just how much accountability has shifted, and just when, may be called the "ambivalence of governance structures." This refers to the frequent merger of executive and oversight functions in governing and coordinating boards. When such a board proposes a formula or collects data, it may do so either as the planning agency of

the institutions under it or as the monitoring agency of the state. It is likely to be seen in the former light by the state legislature and in the latter by, for example, faculty. That its functions should become confused is probably inevitable. If a coordinating board devises a plan for the orderly development and concentration of academic doctoral programs in the state, board members no doubt consider (and rightly) that the board is planning for the kind of excellence whose proper accountability is to the future, in the sense described in the preceding chapter. But as the board monitors the distribution and effectiveness of the resources called for in its plan, it must necessarily ask whether the plan is on track *today*, thus becoming an agency of accountability to the present. As such boards become professionalized, acquiring large staffs of accountants, planners, and economists, the terms of planning become more detailed and increasingly mirror the minutiae of audit accountability. In this sense, the better the boards do their jobs, the more ambivalent they become about their functions.

The confusion is compounded by two other factors. First, many members of coordinating and governing boards are state officials or legislators serving ex officio or are close associates of influential officials and legislators. A perhaps extreme example is the Florida governance structure before 1968, in which both the state board of education and the state budget commission were largely drawn from the governor's cabinet. Such arrangements breed confusion between the state's broad mandate to its institutions, their plans for carrying out that mandate, and oversight concerned with whether they are doing so day-to-day.

Second, there is a factor that has been termed "preemptive capitulation." When the legislature seems about to give guidance, having the force of law, to the state's colleges and universities regarding the use of funds—and there are many ways it can make the handwriting on the wall abundantly clear—a governing board will often seek to avoid such direct intrusion into allocation and governance by itself promulgating a policy achieving the same or a similar result. The policy is likely to be phrased in terms that assure immediate accountability. This

kind of move may certainly be defended as being in the long-run interest of the institutions and their accountability to the future. It nonetheless brings their accountability some distance along the spectrum toward accountability to the present, without frank acknowledgment of the fact.

Informal Relationships in the Accountability Process

The third phenomenon obscuring shifts in accountability is the informality of many of the most important relationships that develop in the accountability process. Some of these strongly favor accountability to the future, while others create an exacting accountability to the present. End runs are probably an example of the former. In some states, an institution (or even a unit within an institution) may routinely approach members of the legislature directly in order to seek a general funding level or funds for specific projects outside the state's explicit budget process. Although it is easy to condemn end runs, they may still favor accountability to the future. This is because the legislator usually secures the funds so that the institution will prosper overall, doing well by its students and achieving general goals of excellence. A legislator is much less likely than the professionals of the budget process to seek or obtain day-to-day accountability for the expenditure of funds.

At the other extreme are some of the informal practices of the professionals of the legislature. In their day-to-day contacts with coordinating board staff and institutions, they are in a position to insist on an interpretation of formulas and line-item language much more in the spirit of accountability to the present than the construction of the legislature's enactments would by itself suggest. They can and do negotiate a commitment to their views through letters of intent, special glosses on the language of appropriation acts, and other devices. Accountability to the present is greatly increased.

The Causes of Change

The shift in emphasis from future to present accountability is not to be seen simply in terms of the declining relative priority of higher education as a claimant on state expenditures. Of all

the frequently cited causes for this decline—a public conception of colleges as havens for radicals, the facts of demography, and the urgency of other programs, to name several factors—only one has a bearing, strictly speaking, on changes in accountability. It is the view of colleges as wasteful or luxurious users of public funds. Certainly, for example, the notion that professors are not required by their institutions to earn their pay has inspired much of the closer legislative scrutiny of teaching loads. Even in this specific instance, however, it is perhaps not so much that the priority assigned to higher education has changed as that the dominant notion of accountability has altered. In the long view that characterized the earlier period of expansion and expansiveness, the chance that a professor might write a better book if he were less troubled with classroom obligations might well have seemed a long-term gamble worth taking, even to legislators. Undoubtedly, legislators tolerated much such thinking in the 1960s. For the rest, it would not appear that the declining priority assigned to higher education would directly explain a shift in accountability. In principle, accountability for a smaller share of public funds could still have been accountability in the same terms.

In practice, the way legislators looked at accountability questions and the way accountability procedures operated were apparently shaped by two factors: the slowing of growth and the professionalization of fiscal management. These developments altered two of the dominant features of the fiscal scene of the 1960s. One was the state's role as patron or benefactor and the other a set of mechanisms that tended to generate surplus funds whose use was at the discretion of the institutions. These features need to be described in some detail for the impact of the slowing of growth and the rise of managerial professionalism to be apparent.

The Public as Benefactor

The era of growth put state political leaders, perhaps to their own surprise, in the situation of the Medicis and the great modern philanthropists. What would have been mere logrolling in projects to construct highways or prisons became, in the case of

higher education, a gratifying opportunity to participate in a flowering of science and scholarship. New institutions needed to be founded and teachers colleges had to be converted into universities in order to accommodate projected enrollments. To keep existing campuses from being larger than anyone wanted, public institutions would have to be scattered over many parts of the state, and they might as well be in the home districts of legislators. If there were to be many institutions, why shouldn't they be distinctive, each with its own excellent traditions? Thinking about such matters, encouraged the same kind of vision about creating something for the ages, rather than for the moment, that must have occurred to, say, John D. Rockefeller when he founded the University of Chicago. It was no time to be penny-wise, pound-foolish. Constituents were clearly demanding more college places, and this meant that very large outlays would have to be made in any case. Other states were being lavish in attempting to create universities of national and international reputation; why not the legislator's own state? There was no lapse in ordinary political shrewdness in considering funding for higher education in this light. The states that were funding higher education generously were also perceived to be the most successful in attracting the new knowledge-intensive industries, preeminently, of course, California. Furthermore, the whole bill would by no means have to be paid by the state's taxpayers. In providing funds for a new institution or program, the legislature was giving higher education a stake which, if large enough and spent in the right way, would attract heavy funding from federal research and training programs.

In these circumstances, it was not hard for legislators and academics to understand each other. The legislator wanted the academics to define excellence and distinction for him; he wanted to be told how to spend money to foster academic creativity; he wanted to learn what sort of university could attract and produce Nobel prize winners. And he was prepared to take the long view of how these things were to be done. For their part, the academics could perfectly well understand the dictates of logrolling. Indeed, the expansion permitted them to do a good deal of logrolling of their own, balancing the distribution

of new positions and facilities among schools and departments. In one southern state the annual appropriations bill for institutions of higher education was referred to by academic administrators as the "watermelon bill"—a bill large enough and juicy enough for everyone.

What resulted were spending decisions far more like those of private donors than those of state legislators in dealing with routine state services. Absent was the demand for immediate results, other than the obvious ones of accommodating students and injecting money into local economies. Absent, too, was the demand that means be clearly justified by ends. Though it is painful to say so, it is probable that the budget for the basic needs of inmates in state institutions was examined more closely than the costs of faculty clubs. Harvard has an excellent faculty club, where Nobel prize winners may be seen having lunch every day. The connection may not be direct, and, in general, the precise causal connections between academic consumption and academic excellence may be too complicated to unravel. But there were ample demonstrations that the one was somehow connected with the other.

The end of expansion inevitably altered the view state political leaders had of their relationship to institutions. For one thing, they could no longer see themselves in the gratifying role of the founders of immortal enterprises. Rather, they became the sustainers. Logrolling continued but became a much less pleasant business. A legislator would probably still be willing to do battle for his local institution, but he would need more details about the affairs of the institution to use as ammunition. Moreover, his defense would increasingly have to take the form of invidious comparisons between the expenditures and resulting accomplishments of his institution and those of other institutions competing for the same funds. Finally, when actual shrinkage was in prospect—as in the termination of duplicative and underenrolled Ph.D. programs—real knowledge about academic excellence and its prerequisites (the lack of which had been unimportant during the expansion) suddenly became the information most needed to defend the threatened ground. Academics could supply justifying arguments, but they were

easily controverted. The example of other states no longer invariably afforded a positive argument, since many of them, too, were experiencing a slowing or ending of growth. The argument about the desirability of diversity could well come to seem arbitrary—being different for the sake of difference. Perhaps most vulnerable was the seed-money argument. With the cutbacks (in real dollars) in federal funding for research and training in the early 1970s, the prospect arose of planting seeds in a dust bowl. In these conditions the most well-disposed of legislators would tend to see that his chances of going down in the history of the institution as a revered patron were shrinking also. It then becomes easy and positively attractive to invoke the impersonal and statistical methods of professional staff.

The Professionalization of the Allocative Function

In the late 1960s and the 1970s colleges and universities have increasingly had to deal with a new breed of public administration professional. Much more quantitative in training and made self-confident by the example of similar professionals in the Pentagon and private industry, the new breed feels no need to respect the expansive and future-oriented methods of the era of growth. For them, logrolling means that one program gets money because another does, that is, for no inherent reason at all. For them, the meat of public administration is competition for resources, and competition, to be rational, must be in terms of characteristics that institutions share. They are trained to regard as the enemy any diversity that cannot be subdued by common-denominator yardsticks of square feet and credit hours. They see seed-money arguments as invitations to collude in thinly disguised Ponzi schemes.

One of the major assumptions of the new professionals can be termed "the unity of government." The wider the scope of trade-off choices—that is, the more programs and priorities that are considered in the process—the better the outcome is expected to be. If the scope of the process is narrow, there is the risk that a program with low priority, in terms of the full range of needs that government addresses, may get better funding treatment than it deserves because its merits are not being

compared with claims of higher priority. Another risk is that the efficiencies possible through the coordination of programs may be overlooked. Accordingly, government should strive for the most comprehensive budget and administrative procedures possible. Following this principle, either explicitly or implicitly, state governments have increasingly insisted on using the same approaches to higher education budget formulation, procurement policies, and personnel systems as are used for other operating agencies of government. Florida provided perhaps an extreme example when, in 1969, budgeting, construction, payroll, and important personnel matters of the state higher education system were placed under the jurisdiction of the state agencies assigned these functions for state programs in general.

The principle of the unity of government has much to be said for it in an era when government is expected to provide, or subsidize, a variety of services in competing constituencies. But it puts on higher education the onus of arguing persuasively that it should be an exception and that it needs autonomy to achieve another order of efficiency. The arguments exist, and they are valid: it simply is not possible for centralized, nonacademic agencies to have the knowledge necessary to make decisions in either the conservative or the opportunistic areas of the autonomous functions. How can such agencies know whether a program in insect taxonomy needs to be preserved, or when the time and the resources of an institution are ripe for joining this program with others through an institute of ecology? But it is difficult to persuade the policy professionals of the validity of such arguments, for they feel they are being told that they are too invincibly ignorant to do the jobs in which they take pride. They find it easier to discount the arguments as just another case of special pleading.

Thus, what we might call the Medici effect has been highly vulnerable to both the slowing of growth and the professionalization of state accountability agencies. Expansion in a climate of emulation calls forth the Medici effect by giving state officials an opportunity to play a part in creating institutions having a permanently honored place in society. This conception of state patronage implies a long view and permits a university's

accountability to be highly future-oriented. But the slowing or cessation of growth makes it much harder for a state official to see public patronage of scholarship and research in this light. And those who are best equipped to deal with the issues of a system that is not growing are the accountability professionals, to whom the notions of such patronage often seem fundamentally alien.

Funding Mechanics, in Forward and in Reverse

The impact of the end of growth and the professionalization of resource allocation is not solely on the conceptions of appropriate government accountability held by state officials. These phenomena also affect the impersonal mechanisms regulating the flow of funds and how these mechanisms operate in fact. The era of growth was one in which the mechanisms had often generated funding surpluses, in the special sense that they made funds available to institutions in excess of the outlays to which they were committed by the receipt of funding or by previous commitments. Three main mechanisms were involved, with many variants:

1. Formula funding
2. Deferral of outlays
3. Absorption into the base.

Formula Funding

Funding formulas were mainly enrollment-driven; that is, with growing enrollments the same formula would each year produce a larger dollar amount. The recipient institution was obligated to accommodate the added students, but the typical formula did not say how they were to be accommodated or that the amount spent on each should be the full amount of the increment in funding produced. This meant that the institution itself could decide which departments would have additional faculty positions, and what kind they would be. Often all departments could grow, or almost all. Such discretion in determining differential rates of growth for different departments allowed extraordinary freedom to shape the institution and its character. As mentioned before, there was further leeway in the fact that the

incremental dollar amount produced by each new enrollment was constant and usually intended to cover average costs. The marginal cost of accommodating an additional student exactly as a student in the base enrollment was accommodated would almost certainly be less than average cost, since many fixed expenses would be spread over a larger number of students. Thus, average-cost formulas produced surpluses for new academic activities or services.

Many academics who in the 1960s saw enrollment-driven formulas as simplistic and blind to the relative merits of different institutions and programs are now realizing how benign they were. There is understandable nostalgia in the following appraisal of formula budgeting as it worked in one state[3]:

> Feared here as they were in other states, the formulas adopted in the 1960s might now be seen as disguised blessings: they provided a quick and simple mechanism to translate student numbers—when there were a lot of students—into dollars, without requiring the Legislature to make many prioritizing decisions. The construction of the original formulas was left to the representatives of the institutions, with most of the actual formulation undertaken by the staff of the voluntary Council of Presidents. The institutions developed their own formulas. The formulas in turn determined how much each institution was to receive, thus, they "generated" funds. . . .
>
> The formulas accomplish several things simultaneously: they approximate real operating costs based on national averages; they provide a measure of equity across institutions; and, last but not least, they tend to avert more direct intervention by government into the details of institutional affairs.

Deferral of Outlays

In the era of growth, it was often impossible to provide exactly the same amount of instructional or other resources to the

[3]The following extract is from an unpublished report commissioned by the Sloan Commission.

added students because buildings could not be built or instructors hired quickly enough. Outlays were inevitably delayed. It is for this reason that the per student expenditures of very new institutions were often remarkably low in the 1960s. This temporary start-up efficiency created additional surpluses in salary, maintenance, and service accounts and sometimes in capital accounts also. The added students often had to attend larger classes than they would have if the hiring of new instructors had kept up with growing enrollments; classes were held in makeshift facilities; and faculty had to grade more papers. But these were (rightly) seen as temporary and understandable inconveniences and not, usually, as grounds for challenging the discretion of the institution in spending the surpluses. In a major midwestern university, the use of expansion to generate discretionary funds became so systematic that the administration regularly referred to one set of budget documents in planning their allocation of such surpluses and to another in satisfying more official accountability purposes.

The slowing or cessation of growth put an end to surpluses generated in this way. The gap between past average-cost figures and prospective ones tended to close. If enrollments actually shrank, the favorable effect of formula funding was shifted into reverse, since average costs would begin to mount. Start-up efficiencies would necessarily also end, since buildings would eventually be built and thereafter have to be maintained, and faculty would eventually be hired and have to be served by libraries and laboratories. The leverage of differential growth rates would be lost. Hence, without an increase in the total number of students it would become increasingly difficult, as the course preferences of students shifted, to maintain comparable class sizes in different departments.

Absorption into the Base

The third mechanism mentioned above, absorption into the base, actually consisted of many different mechanisms whose only common characteristic was their effect. The term is used here to mean any budget process in which the continuing costs of a program initiated by the use of discretionary funds are met

from regular formula funds or other general support funds. When this occurs the discretionary funds (provided they continue to flow to the institution) can be used the next year to start another new program, and the following year to start yet another. An example is the treatment still accorded excess "other funds" income of public institutions in Texas. (In Texas economic growth and an increasing demand for higher education continue to sustain a boom in higher education similar to that which was occurring in many states in the 1960s.) The device works in this way: the budgeted amount of formula and nonformula spending is reduced by the amount of "other funds" income, which includes tuition, in arriving at a final appropriations request. Since tuition revenues fluctuate with enrollments, and enrollments are somewhat unpredictable, institutions seek to establish low estimates of the amount of "other funds" that will be available. When, in fact, the "other funds" amount exceeds the estimate, the surplus may be used to start a new program, just as an unrestricted gift to a private institution could be used. Then, in the following year, the regular appropriation covers the continuing cost. If there is an "other funds" surplus again, it can be used for another new activity. Table 1 illustrates the potential of this device in recent years if used systematically.

Table 1. The possible multiplier effect of excess funding, Texas (In $ millions)

		Program maintenance in succeeding biennia					
Biennium (FY)	*Excess*	*68–69*	*70–71*	*72–73*	*74–75*	*76–77*	*Total*
1966–67	$ 8.0	$8.0	$ 8.0	$ 8.0	$ 8.0	$ 8.0	$ 40.0
1968–69	3.1		3.1	3.1	3.1	3.1	12.4
1970–71	16.0			16.0	16.0	16.0	48.0
1972–73	8.1				8.1	8.1	16.2
1974–75	12.3					12.3	12.3
Total	$47.5	$8.0	$11.1	$27.1	$35.2	$47.5	$128.9

Source: Texas Research League.

This is an example of only one such device. There have been academic positions originally funded by research overhead or federal demonstration grants that have subsequently been permanently supported by regular appropriations. The maintenance of buildings built with private philanthropic funds is also normally assumed. All such devices enable discretionary resources to be stretched to permit more new initiatives. There must be many budget analysts in state government who feel they have done a good day's work by exposing such devices. Their use nonetheless represents an exercise of academic autonomy that may be highly creative in result.

Making Room for Academic Autonomy in Modern Government

The discussion presented in this section may arouse uneasy feelings on two counts. First, is it being said that academic autonomy can exist only when growth is occurring? If so, then it would appear that we must choose between loss of academic autonomy and growth that is not really needed. The second, and related, qualm is this: must the rationality of modern budget analysis be abandoned in order to preserve autonomy? If so, then we must make the unpalatable choice between irrationality and stifling budgetary controls.

These dilemmas are not real, but insensitivity can make them so. The reason why growth or the lack of it is so important in determining the availability of resources for autonomous new ventures in higher education is that reallocation of resources within a continuing level of funding is made so difficult. This is accountability to the past, with a vengeance. Tenure, the grandfathering of the claims of old programs, the permanent enshrining of courses in catalogs—all of these restrict reallocation severely. Administrators who do battle to free existing resources can count on faculties and their constituencies to align themselves much more easily with the "have" programs than with the "have-not" programs. Government too readily accepts the view that what is called in federal parlance a "continuation of services" budget is almost sacrosanct. Yet to favor commitments

of the past over commitments of the future is surely less appropriate for institutions such as universities, which aim at adjusting rapidly to changes at the frontier of research and teaching, than for establishments with more narrowly prescribed roles, such as parks or kindergartens.

The most refractory case of commitments levied on the present by the past is that of academic facilities, and this example suggests a conceptual approach to the problem of having funds for new ventures when there is no growth. Most institutions of higher education do not account for depreciation or in any other regular way allow facilities investments to be written off. They deal with depreciation much as—for ideological reasons—the Soviet Union does: only tangible wear and tear is recognized. But, if an orderly accounting were made for obsolescence and maladaptation, and if the public budget process provided for such depreciation, there would be funds for needed renovation and replacement. Similarly, if academic commitments to faculty and programs were understood to depreciate and require replacement on a reasonable schedule and if this depreciation were funded, there would be continuing flow of funds for new ventures, even with level budgets. Of course, to state a concept is not to overcome resistance to it. A good deal of ingenuity and compromise would be required to bring about arrangements that would have the desired effect. The point is that growth and creativity are not inevitably yoked together. They seem to be only because accounting and budget procedures for higher education have not developed the appropriate techniques for dealing with the distinctive nature of academic creativity.

Another fallacy is that rationality and professionalism in the allocation of public resources is inevitably the enemy of academic autonomy and creativity. Indeed, there is a need for just such qualities in developing methods of framing alternatives in budgets so that decision makers will recognize that creativity is at stake. If this could be done, then the kinds of measures now too prominent in state budget processes—square feet of space, numbers of students served—would not have the overwhelming influence they now have. Formulas would no longer

operate mindlessly to produce boom followed by bust. Modern public administration will remain hostiie to logrolling, Ponzi schemes, and unexamined traditionalism, but it need not be hostile to the continuing need of institutions for resources to allocate to new ventures.

5

The Scale of the Problem

It has been argued here that for colleges and universities to function well, they need to have some funds for which their primary and important accountability is for long-term results, and not for a detailed, day-to-day matching of allocations and expenditures. But how much such discretionary funding do they need? How would we know if they had enough, and how would we know if their margin of such financing fell perilously low?

The preceding chapter can be read as a recitation of many reasons why these qualitative questions cannot really be answered. It would not be enough to estimate ratios—ranging from desirable to perilous—of gift and endowment revenue to total expenditures. This will not suffice because public funds and tuition revenues have sometimes had the desirable characteristics of private funding, and it is the total of discretionary funds from all sources as a fraction of institutional financing that we would expect to find correlated with "creative health" or the lack of it. We could not, for example, find a "healthy" period and estimate the proportion of discretionary funding that seemed necessary to sustain it by looking at gift and endowment funds alone. We would also have to estimate the amount of discretionary funds from public sources, add these to gift and endowment income, and only then calculate the share of total funding that perhaps must be discretionary for the enterprise to be healthy. But any estimation of discretionary funds from public sources requires heroic assumptions. The ambiguity of public accountability systems, the disguising of the real terms

of accountability, and the infinite variety of sui generis situations in state funding make serious estimates almost out of the question.

This chapter will put forward some estimates all the same. The value of the exercise is simply to give a sense of scale to the need of institutions for resources they themselves guide. If the focus is on discretionary funds in general, rather than on strictly private funds, at least one problem becomes relatively easy—that of selecting a base period for estimating the share of discretionary funding that would be adequate. Very few would question that the 1960s were a time when private and private-equivalent funds were clearly doing their proper work. Of course, many institutions needed, or thought they needed, more such funds in order to undertake new ventures. Many good ideas did not get the backing they deserved. But two facts strongly suggest that the aggregate amount of discretionary funds, in relation to the size of the higher education enterprise as a whole, must have been roughly adequate to give institutions the autonomy to back programs and prospects of their own choosing. One fact, now surprising, is the lack of competition for private gifts and government subventions between the public and private sectors during the 1960s. By and large, public and private institutions were content with the growth each sector was achieving. The private institutions' share was clearly slipping, but this was not felt as a ground for much alarm, since private institutions were generally succeeding in becoming the kinds of institutions they wanted to be.

The second fact is the increasing similarity of public and private institutions that characterized the period. No doubt, this had much to do with the academic revolution charted by Riesman and Jencks (1968), and the general trend of aspirations toward elite university status. It also had to do with wide acceptance of a common model of how to organize an institution in order to offer a comprehensive array of academic courses and professional training. The point for our present purposes is that funds were plainly adequate to give reality to the aspirations of many public institutions and to make many of them more comprehensive. It is difficult to imagine how public and private

institutions could have realized similar academic goals if state governments or the federal government had insisted on standards of accountability for public funds insuperably different from those attached to the private funds that have traditionally supported a future-oriented accountability. In fact, the academic revolution and the new comprehensiveness exactly constituted the agenda of the academics themselves and the kind of accountability to the future they prefer and to which private funding lends itself. Quite apart from the rhetoric and excitement of the 1960s, it is hard to avoid the conclusion that colleges and universities had enough funds of the right kind to develop their own futures autonomously. Thus, we can take some of the hypotheses of this essay as a basis for calculation. If there were enough funds to support autonomy in the 1960s, then we need only estimate the aggregate amount of such funds in that period to get a rough idea of a healthy ratio of private and private-equivalent funds to total funding.

However, it is at this point that we have to make heroic assumptions and discriminations. Each of the familiar categories of institutional funding contains some funds that are highly supportive of autonomy and others that are not. Even strictly private funds are not always so supportive. Some donors give money on terms that are seriously restrictive, although this is the exception rather than the rule. Alumni or their representatives sometimes interfere with the details of campus affairs, although not usually. Part of the increases in tuition revenues has to be reserved for student aid in order to maintain enrollments and, to that extent, is not freely at the disposal of institutions.

Estimating Discretionary Funds from Public Sources

The problem is a good deal more difficult in the case of public funds. Granting the hypothesis of this essay that much public funding in the 1960s was like private--either because of the public benefactor's intent or simply because of funding mechanics--how do we determine how much? In considering state appropriations for institutional operations, it can be strongly argued that recent growth in funding, but *only* recent growth,

should in the 1960s be regarded as lending clear and strong support to autonomy. The argument is that this year's growth in funding would almost always have resulted in the hiring (or promoting) of teaching and administrative staff, even if they were only going to teach and administer existing programs. Therefore, this year's growth in state operating funds was bound to offer an institution a real choice about the kinds of people it wanted in order to be the kind of institution it wanted to be. On the other hand, last year's growth would have tended to become this year's budget inflexibility. Attrition, ingenuity, and reallocation within the base would have allowed some freedom for continuing self-determination but could not have been counted on as a general rule.

Current operating funds for utilities, maintenance, and the like also do not constitute venture capital. Recently, about two-thirds of education and general expenditures has gone toward instruction, research, and general academic support, rather than toward such housekeeping costs. Therefore, a fairly safe rule of thumb would be to estimate that in the 1960s two-thirds of the year-to-year growth must have gone into compensating people connected with the central academic enterprise, whose choosing was a real exercise of autonomy. Some went to increasing the salaries of such people according to centrally directed or union-negotiated formulas, but in the 1960s such increases in staff outlays that were not within the discretion of the institution were still relatively rare.

In the case of federal funds, a defensible rule of thumb would be to draw the line between direct and indirect costs. The direct-cost portion of a research or other program grant is spent for items over which the principal investigator or other project chief has some discretion, or at least had some when he designed the project. Ordinarily, the institution can be said to have exercised autonomy in hiring the project chief and in deciding to choose someone who would be likely to seek and receive federal funding. Since, however, the actual expenditures for direct costs are not subject to an autonomous institution-wide budget process, it would be well not to count them as having been clearly supportive of autonomy.

On the other hand, the indirect-cost portion of federal project grant funds tended to represent funds the institution could allocate autonomously (see Smith and Karlesky, 1977). Since indirect-cost allowances cover costs for such items as library services, maintenance, and administrative staff which the institution would have incurred, or wished to incur, even if there had been no grant, the whole of the indirect-cost allowance can be seen as functioning very much like an unrestricted gift. This is rarely entirely the case, and there are states where such income is deducted from an institution's general subsidy or even treated as a revenue of the state rather than of the institution. But, considering the environment of the 1960s, it would be better to treat aggregate indirect-cost allowances as equivalent to private support than to treat none of it as such, and it would be impossible to treat part of it as private funds, and part not.

Tuition and Capital Outlays

Tuition is, of all revenue, the most difficult to apportion between funds that are supportive of autonomy and funds that are not. On one hand, receipt of a tuition payment commits the institution to providing services for which it must incur costs. Further, it must often allocate some tuition revenue to grants to students who cannot pay tuition charges out of their own pockets, and the proportion so allocated varies greatly from institution to institution. On the other hand, receipt of a tuition payment does not ordinarily commit the institution to providing services in a particular way, for instance through instruction by a professor of a particular academic rank. Nor does the institution usually risk wholesale loss of enrollments by modifying its program if it is reasonably cautious in the way it does so. These considerations, taken together, cannot readily be reduced to a general rule of thumb for determining how much of tuition revenues are available for discretionary use. Lacking such a rule, it seems best to treat tuition revenues exactly as state funds for operations are being treated—that is, to consider that two-thirds of year-to-year real increases in tuition revenues is available for discretionary use. By disregarding the base, this approach

probably underestimates the amount by which tuition has been supportive of institutional autonomy in both the 1960s and the new environment of the 1970s. The advantage, however, is that changes in the relative dependence of public institutions on state subvention on one hand and tuition on the other are treated as relatively neutral. If different rules for state funds and tuition were used, the lags that occur for largely political reasons in adjusting the relative shares of public institution budgets provided by state support and by tuition would appear to be shifts in financial autonomy. They probably do not constitute this kind of change when the swing in the adjustment amounts to only $100 or $200 per student at any one time.

Consideration should also be given to capital outlays. Unquestionably, the many new buildings and entire new campuses of the 1960s offered extraordinary opportunities to redesign the environment of education. New libraries and laboratories offered the chance to advance new lines of research. Much of the funding for these capital items was accomplished under circumstances in which the public providers of funds could, and did, regard themselves as benefactors taking a long view of their purposes, quite compatible with institutional autonomy. Yet it seems impossible to say how much of capital outlays represented support of such autonomy or simply reflected the high cost of housing activities to which an institution was in any case committed. Further, there is no foreseeable future need for comparable outlays for like purposes, even though the need for facility modernization will continue to exist. To include even a modest fraction of the capital outlays of the 1960s in a figure for funds supportive of autonomy during that base period would almost certainly lead to an exaggeration of the share of total funding in the 1980s that needs to be at the discretion of institutions. Accordingly, capital outlays will be disregarded here, even though this results in an understatement of the amount of discretionary funding available in the 1960s.

Indicators of Change

From the foregoing analysis we should be able to get a rough idea of the share of total funding of institutions that ought to

be discretionary, and subject mainly to accountability to the future, by finding the ratio of the sum of the following items to total education and general expenditures for each year in the 1960s:

1. Current gifts and endowment income
2. Two-thirds of real growth in state appropriations for operations
3. Aggregate indirect-cost allowances on federal research grants and other project funding
4. Two-thirds of real growth in tuition revenues.

Table 2 gives the totals for these items at all institutions in the years 1966 through 1977, together with total education and general expenditures for each year and the percentage of total expenditures represented by private or private-equivalent funds. Clearly, the share of discretionary funds in the total expenditures of institutions has fallen off significantly since 1970. Through 1970 the average share was 15.3 percent. Since 1970 the average has been 13.7 percent. It may be that the analysis presented here does not provide an accurate basis for estimating the financial resources available to support the autonomous choices of institutions. Indeed, there are several reasons for believing that it does not.[4] Nonetheless, the analysis probably does reflect a real change, beginning in about 1970, in at least the flexibility of institutional finances. By doing so, it makes understandable the impression of academic administrators that their hands have increasingly been tied not just by new regulations, faculty intransigence, and the like, but also by the realities of the budget process—and well before the presumptive decline in the number of young people with aspirations for higher education.

[4]Other methodological problems aside, it would be desirable to make such estimates in a way that would avoid the netting out of declines in state and tuition funds in calculating growth. It is not possible to do this using the published statistical tables. This shortcoming would be a major problem, however, only if some institutions were growing rapidly while others were declining importantly—which has generally not yet occurred.

Table 2. Private and private-equivalent discretionary funds of higher education institutions as a percentage of total education and general expenditures, 1966–1977

	Discretionary funds	*Total education and general expenditures*	*Discretionary as percentage of total*
	(In billions of 1967 dollars)		
1966–67	$1.9	$11.7	16.4%
1967–68	2.3	13.3	17.6
1968–69	2.2	13.4	16.7
1969–70	2.5	14.5	17.2
1970–71	2.3	15.3	14.8
1971–72	2.3	15.9	14.6
1972–73	2.5	17.0	14.5
1973–74	2.5	17.6	14.4
1974–75	2.3	18.8	12.4
1975–76	2.4	19.1	12.6
1976–77	2.5	19.6	12.7

Note: Aggregate indirect-cost allowances on federal grants are assumed to have been 12 percent of federal grant revenues in 1966–68 and 18 percent in 1974–77. Source estimates are used for the intervening years.

Source: U.S. National Center for Education Statistics, *Financial Statistics of Institutions of Higher Education*, appropriate years.

The loss of flexibility and funding for use in new ventures has occurred in different degrees at different institutions. Some have escaped having to deal with such losses altogether, at least so far. Disregarding the variability of individual situations, there are still large differences between categories of institutions. We could probably discern differences between each kind of institution distinguished according to a rich taxonomy of institutions like the Carnegie Classification. Full financial data for Carnegie types are not readily available. However, comparable totals for the type and control categories of the National Center for Education Statistics (NCES) suggest important differences. Tables 3 and 4, for example, show the changing role of discretionary funds in all public institutions and all private institutions. Here it is clear that the important decline was in the availability of

discretionary funds to support the programs of public institutions. The decline was from an average of 10.9 percent of education and general expenditures in the late 1960s to an average of 7.7 percent in the 1970s. At private institutions the decline was much less, from an average of 27.3 percent to an average of 26.7 percent.

Table 3. Private and private-equivalent discretionary funds of public institutions as a percentage of total education and general expenditures, 1966–1977

	Discretionary funds	*Total education and general expenditures*	*Discretionary as percentage of total*
	(In billions of 1967 dollars)		
1966–67	$0.6 (?)	$ 7.0	9.2%
1967–68	1.1	8.3	13.1
1968–69	0.8	8.6	9.7
1969–70	1.1	9.5	11.6
1970–71	0.9	10.2	8.5
1971–72	0.9	10.7	7.9
1972–73	1.0	11.6	8.4
1973–74	1.1	12.2	8.6
1974–75	1.0	13.1	7.4
1975–76	0.9	13.3	6.7
1976–77	0.9	13.6	6.5

Note: Aggregate indirect-cost allowances on federal grants are assumed to have been 11 percent of federal grant resources in 1966–68 and 14 percent in 1974–77. Source estimates are used for the intervening years.

Source: U.S. National Center for Education Statistics, *Financial Statistics of Institutions of Higher Education*, appropriate years.

It is perhaps worthwhile, however, to make close comparisons between types of institutions only at the most disaggregated level possible. Tables 5, 6, 7, and 8 attempt this. These four tables require some technical comment. In the early 1970s the NCES decided to reclassify as separate institutions many branch campuses and member institutions of multicampus systems. In fact, some institutions were reclassified more than

Table 4. Private and private-equivalent discretionary funds of private institutions as a percentage of total education and general expenditures, 1966-1977

	Discretionary funds	*Total education and general expenditures*	*Discretionary as percentage of total*
	(In billions of 1967 dollars)		
1966-67	$1.2	$4.7	24.6%
1967-68	1.3	5.0	25.8
1968-69	1.4	4.7	29.2
1969-70	1.4	4.9	28.4
1970-71	1.4	5.1	27.7
1971-72	1.5	5.2	28.2
1972-73	1.5	5.4	27.8
1973-74	1.5	5.4	27.4
1974-75	1.5	5.8	25.2
1975-76	1.5	5.8	25.5
1976-77	1.6	6.0	25.9

Note: Aggregate indirect-cost allowances on federal grants are assumed to have been 14 percent of federal grant resources in 1966-68 and 22 percent in 1974-77. Source estimates are used for the intervening years.

Source: U.S. National Center for Education Statistics, *Financial Statistics of Institutions of Higher Education*, appropriate years.

once. These actions do not much affect the usefulness of NCES financial data to this essay in so far as the concern is with the totality of all institutions, or with a disaggregation of institutions into the group of all public institutions and the group of all private institutions. This is because reclassification did not involve much resorting of institutions or dollars between the public and private sectors. Tables 3 and 4, accordingly, are comparable to Table 2, and the reclassification process does not affect the year-to-year comparisons implied.

However, the reclassification process often did affect characteristics important for further disaggregation of the data. This is because the enrollments and budget dollars of some campuses were shifted, along with the campuses themselves, from the university category to the four-year college or two-year college

Table 5. Private and private-equivalent discretionary funds of public universities as a percentage of total education and general expenditures, 1966–1977

	Discretionary funds	*Total education and general expenditures*	*Discretionary as percentage of total*
	(In billions of 1967 dollars)		
1966–67	$0.4	$4.6	8.0%
1967–68	0.7	5.4	13.6
1968–69	0.6 (?)	5.2	11.2
1969–70	0.7	5.6	12.6
1970–71	0.6	5.8	10.2
1971–72	0.6	5.9	9.7
1972–73	0.6	6.2	9.9
1973–74	0.4	5.2	8.5
1974–75	0.5	5.4	10.0
1975–76	0.5	5.4	9.2
1976–77	0.5	5.6	9.5
Average percentage 1966–67 through 1969–70			11.3
Average percentage 1970–71 through 1976–77			9.5
Average percentage 1970–71 through 1976–77 *excluding* 1973–74			9.7
Average percentage 1970–71 through 1972–73			9.9

Note: Aggregate indirect-cost allowances on federal grants are assumed to have been 11 percent of federal grant resources in 1966–68 and 17 percent in 1974–77. Source estimates are used for the intervening years.

Source: U.S. National Center for Education Statistics, *Financial Statistics of Institutions of Higher Education*, appropriate years.

category. These shifts especially affected comparisons of financial data for 1973–74 with data for 1972–73. They resulted in apparently large growth in the budgets of public four-year institutions and in an apparently large decline in state funding for public universities. Since these effects are artifacts of the change in classification procedure, the row of figures for 1973–74 is best disregarded, at least in the case of public universities and public four-year colleges.

Table 6. Private and private-equivalent discretionary funds of private universities as a percentage of total education and general expenditures, 1966–1977

	Discretionary funds	*Total education and general expenditures*	*Discretionary as percentage of total*
	(In billions of 1967 dollars)		
1966-67	$0.6	$2.6	23.4%
1967-68	0.7	2.7	24.6
1968-69	0.7	2.5	28.4
1969-70	0.7	2.5	27.7
1970-71	0.7	2.6	27.9
1971-72	0.7	2.6	27.8
1972-73	0.8	2.7	28.5
1973-74	0.7	2.6	28.0
1974-75	0.7	2.7	27.9
1975-76	0.7	2.7	27.2
1976-77	0.8	2.8	27.9
Average percentage 1966-67 through 1969-70			26.0
Average percentage 1970-71 through 1976-77			27.9
Average percentage 1970-71 through 1976-77 *excluding* 1973-74			27.9
Average percentage 1970-71 through 1972-73			28.1

Note: Aggregate indirect-cost allowances on federal grants are assumed to have been 13 percent of federal grant resources in 1966-68 and 23 percent in 1974-77. Source estimates are used for the intervening years.

Source: U.S. National Center for Education Statistics, *Financial Statistics of Institutions of Higher Education*, appropriate years.

In order to give some accounting for the effects of reclassification and to assist comparisons, a collection of averages is shown at the foot of each of the four tables for public and private universities and four-year colleges. Given are the average percentage share of discretionary resources for 1966-67 through 1969-70, the average percentage share for 1970-71 through 1976-77 *including* 1973-74, the average for the same period *excluding* 1973-74, and the average for the three years 1970-71 through 1972-73. This allows somewhat for differing views

Table 7. Private and private-equivalent discretionary funds of public four-year colleges as a percentage of total education and general expenditures, 1966–1977

	Discretionary funds	*Total education and general expenditures*	*Discretionary as percentage of total*
	(In billions of 1967 dollars)		
1966–67	$0.2	$1.7	11.4%
1967–68	0.2	2.0	11.5
1968–69	0.2	2.2	7.5
1969–70	0.3	2.5	11.9
1970–71	0.2	2.8	6.2
1971–72	0.2	3.0	5.8
1972–73	0.2	3.3	7.3
1973–74	0.8	4.6	17.9
1974–75	0.3	4.9	6.2
1975–76	0.3	5.1	6.4
1976–77	0.3	5.2	5.5
Average percentage 1966–67 through 1969–70			10.6
Average percentage 1970–71 through 1976–77			7.9
Average percentage 1970–71 through 1976–77 *excluding* 1973–74			6.2
Average percentage 1970–71 through 1972–73			6.4

Note: Aggregate indirect-cost allowances on federal grants are assumed to have been 10 percent of federal grant resources in 1966–68 and 11 percent in 1974–77. Source estimates are used for the intervening years.

Source: U.S. National Center for Education Statistics, *Financial Statistics of Institutions of Higher Education*, appropriate years.

about the pervasiveness of the distortions caused by the reclassification process. It seems most reasonable to exclude 1973–74 but to include later years in averaging discretionary shares because only interyear comparisons are sensitive to the arbitrariness of the reclassification process. Once the process has created a new, relatively stable basis for such comparisons, growth figures and discretionary percentages derived from them should again be fairly meaningful.

Table 8. Private and private-equivalent discretionary funds of private four-year colleges as a percentage of total education and general expenditures, 1966-1977

	Discretionary funds	*Total education and general expenditures*	*Discretionary as percentage of total*
	(In billions of 1967 dollars)		
1966-67	$0.5	$2.1	26.7%
1967-68	0.6	2.2	27.3
1968-69	0.6	2.1	30.6
1969-70	0.7	2.2	30.0
1970-71	0.7	2.3	28.1
1971-72	0.7	2.4	30.0
1972-73	0.7	2.5	27.5
1973-74	0.7	2.7	27.7
1974-75	0.7	2.9	23.1
1975-76	0.7	3.0	23.9
1976-77	0.7	3.1	23.9
Average percentage 1966-67 through 1969-70			28.7
Average percentage 1970-71 through 1976-77			26.3
Average percentage 1970-71 through 1976-77 *excluding* 1973-74			26.1
Average percentage 1970-71 through 1972-73			28.5

Note: Aggregate indirect-cost allowances on federal grants are assumed to have been 13 percent of federal grant resources in 1966-68 and 18 percent in 1974-77. Source estimates are used for the intervening years.

Source: U.S. National Center for Education Statistics, *Financial Statistics of Institutions of Higher Education*, appropriate years.

Divergent Trends

Disregarding the 1973-74 data, the share of public university expenditures provided by discretionary funds averaged 11.3 percent in the 1960s and 9.7 percent in the 1970s. This was to be expected. Indeed, the result is largely circular, since the amount of discretionary funds calculated to be available was made largely dependent on growth or lack of growth in state funding, according to the hypothesis that growth provided discretionary funds in the 1960s but does so no longer, or not much. On the other hand, private universities seem to have

gone in the opposite direction, with the average share provided by discretionary funds increasing from 26 percent in the 1960s to 27.9 percent in the 1970s. This apparently greater dependence of private universities on discretionary funds is not a result of circularity to nearly the same degree as the contrasting development was in public universities. The endowment and current-gift revenue of private universities increased by about one-third in constant dollars, and rising indirect-cost rates almost doubled this source of revenue. There was real growth in these resources, although the 1970s cannot by any means be considered a boom period for private universities, since these figures do not take into account how the discretionary funds of private universities were increasingly encumbered by energy costs, fixed obligations to faculty, and compliance with governmental regulations for which there was no offsetting revenue. Nonetheless, similar costs had to be borne by public universities even as their presumed discretionary resources shrank as a fraction of their total resources. Both types of institutions had to fall back on their discretionary resources to meet routine operating costs, leaving less of these resources available to finance new ventures. Thus, it is hard not to conclude that public universities really lost ground in comparison with private universities in terms of flexible financing, and the figures probably bear this out, circularities aside.

If a shift away from discretionary funding affected the public universities especially severely in the 1970s, then their creative autonomy—which approached that of the private universities in the 1960s—has almost certainly diminished also. If we ask which needs private or private-equivalent funds most, it may well be these public institutions. As emphasized before, many private universities need additional flexible funding in order to do something with their hard-won autonomy. Enough funding can, for them, become an issue of sheer survival. It is therefore not hard to maintain that private universities have a priority claim on sources of private funds, and not merely by right of their being historically first in the queue. But, if the concern is to alleviate the financial situation that is most detrimental to the values of the autonomy of the educational enterprise

as a whole, then the public universities may well be in need of more attention, since the damage done by a lack of financial flexibility and by the loss of opportunities may be greater in this sector than in the private.

A comparison of public and private four-year colleges also shows divergent trends, although not in opposite directions. The proportion of budgets provided by discretionary funds was distinctly smaller at both of these types of institutions in the 1970s than in the 1960s, but the share declined more at public four-year colleges than at private ones. Ignoring 1973–74 in both cases, the average discretionary share for private institutions declined from 28.7 percent in the late 1960s to 26.1 percent in the 1970s. For public institutions the decline was larger and from a smaller base: from 10.6 percent to 6.2 percent. This latter result exemplifies, albeit with circularity, the hypotheses being advanced in this essay. At public four-year institutions, all forms of discretionary funding counted here seem to have grown steadily in both the 1960s and 1970s, except those derived from growth in state appropriations. But growth caused an even more rapid buildup in base budgets, and, when growth slowed, these institutions were left with budgets for which discretionary funds, including new state funds, provided proportionally much less support.

This development surely contributes to the sense of being thwarted and on a tight rein that public college administrators express. In colleges that were originally teachers colleges, there now often seems to be little the administrators can do to complete the transition to liberal arts status by adding new departments and curricula. There is often also little they can do to balance the increasing vocationalism of their students. Autonomously developed programs to do these things cost money, and some of the money needs to be unencumbered by accountability formulas.

A final word should be said about the deliberate omission here of any comparison of the trends affecting two-year colleges. There is more than one good reason for this omission. Private two-year colleges are so often committed to special missions, and public ones so often have such comprehensive missions, that any comparison could be ruled out on that ground

alone. But giving a second reason will reinforce a proper skepticism about the kind of estimates presented, for the methodology used altogether breaks down when applied to public two-year colleges. Almost all of their funds come from public sources, and this means that, in the estimates made here, the extremely rapid growth in the number of public community colleges in the late 1960s would show up as an extremely high percentage of discretionary funds in their budgets. This would be very misleading. Frequently, highly entrepreneurial leadership grasped the opportunities for innovation that accompanied growth. But the active involvement of local governing boards, the requirements for articulating transfer programs with four-year colleges, and the demand for immediate results in serving the community put limits to such entrepreneurship. That there should have been such limits is entirely proper. Still, the consequence is that no large fraction of the growth in community college funds can be put down as venture capital in the same way that it can be in, say, the case of a public flagship university. At the same time, a slowing of growth does not have to mean the kind of contraction of aspirations that it has tended to mean for public universities. Freedom from some of the conserving obligations of universities allows community colleges to be much freer also in changing the mix and balance of their programs.

In general, we have to say that any estimate of the amount or proportion of discretionary funds available to an institution or group of institutions is meaningful only if certain assumptions about its role and mission hold true. The estimates presented here make the most sense when applied to an institution that seeks to operate in the autonomous conserving and opportunistic style created largely by the private institutions of the nineteenth and early twentieth centuries. If this model does not fit very well a single institution or a group of institutions such as the public two-year colleges, then estimates based on it will not fit either. Thus, there may be an even larger circularity to the estimates presented here than previously suggested. Perhaps all they can show is that an apparently quantitative problem should somehow be quantifiable, that scale is important, and that it makes sense to try to reduce the size of the problem.

6

Restoring Financial Autonomy

If a drop in the share of flexible private and private-equivalent financing is an important reason why colleges and universities are having such difficulty in maintaining their creative autonomy, it follows that one way to return to a happier and more productive state of affairs is to increase this share. If the diagnosis is right, then the prescription is obvious, at least in general terms. But how much more private and private-equivalent funding would be required? The difference between the share of total education and general funds financed from such sources in 1976–77 and the average share in the late 1960s is 3.3 percentage points. On this reasoning, in 1976–77 about $1.1 billion more of available financing would have had to take the form of private or private-equivalent funds to sustain the degree of autonomy characteristic of the 1960s. Projecting only enough growth in aggregate expenditures to stay even with inflation, in 1980–81 something like $1.5 billion will have to be received on terms permitting flexible and discretionary use, a sum that will otherwise presumably come with too many strings attached if nothing changes in the sources and accountability of funds.

The Size of the Deficit

The size of the estimated imbalance between discretionary and other funds can be seen as either very large or very small. It

seems large in relation to the revenues of any one institution. It also seems large if we were to imagine that such an amount would have to come entirely from one source, for example, corporate gifts or alumni contributions. It would seem even larger if we supposed that it all had to come from increases in endowment income. Assuming a constant dollar rate of total return on endowment funds of 5 percent, additional endowments of $30 billion would be needed if they were to be the only source of the $1.5 billion in additional discretionary funds. However, the additional discretionary revenue needed does not seem large in other comparisons. It amounts to only 8.5 percent of the institutional appropriations of state governments projected on a steady-state basis, that is, adjusting only for inflation, and to only 14 percent of public student-aid funds under approximately the present set of programs.

The smallness of the amount suggests several possibilities. First, it may simply be that the crude estimation procedure used here is wrong and that larger proportions of tuition, state appropriations, and research grant revenues would need to be discretionary for the system as a whole to be as autonomous as it was in the 1960s. Second, perhaps it is wrong to use the concept of a margin of discretionary funding; that is, it may be that *all* funding needs to be considerably more discretionary, with accountability mainly to the future. Third, as mentioned before, the approach used here only attempts to take into account growth or reduction of funds not subject to external constraints. The extent to which internal constraints and inflexibilities result in financial distress or limit choices is not considered; thus, there may be serious problems that are not reflected in this analysis. In other words, the lack of discretionary funds and the reality of internal inflexibility may together create a worse situation than the figures suggest. Fourth, it may be that the 1970s were not such a bad time for the autonomous functions of colleges and universities as we are inclined to assume in view of the pessimism that has prevailed recently. That is, perhaps a larger amount of additional discretionary funding is not needed because a great deal is already available. In 1977, according to Table 2, the additional amount needed by all institutions would

have been only a little more than a third of what there already was. There have been continuing efforts to make such funding more adequate to the need, and, in consequence, the size of the problem has been reduced considerably. The real value of current gifts and endowment revenue has increased by half again since the late 1960s. And the usefulness of federal indirect-cost allowances and of tuition revenues as supports for autonomy has not ended but is only threatened. The situation may not be dark yet but rather just getting dark.

The Prospects for More Private Support

What changes should occur in order to reverse what is at least a trend toward overdependence on inflexible funding and in order to replace such funding with revenues more subject to the autonomous decision making of colleges and universities? If continued growth of private funding in the strict sense were to redress a major part of the present imbalance between discretionary and nondiscretionary funds, the claims of higher education would certainly compete with those of other claimants seeking private funding. But the total amount of philanthropic giving is not a pool of constant amount. Individuals, corporations, and nonprofit organizations can and do change the level of their giving from year to year. Is it realistic to expect continued growth in their giving to higher education? The answer depends on the likelihood of and weight assigned to a number of positive and negative trends. On the positive side, the economy could return to a path of strong growth in the 1980s, with that growth showing up in both individual and corporate real incomes. Such a benign trend would be occurring as the members of the large college classes of the 1960s reach a fairly high point in their lifetime earning trajectories, and at a point at which they begin to be concerned with the quality of the higher education experiences their children will have. On the negative side, inflation could continue without much real growth. If individuals were then to feel that their own security and autonomy were threatened by economic conditions, it could be exceedingly difficult to persuade them to give more to support the security and autonomy of colleges and universities. They might, instead, take

the view that legislative budget analysts too often take, that higher education is a public service lacking any special claims.

An Agenda for the States

It might be asked why state governments should not at least reduce the scale of the problem by mending some of their ways. After all, it was state governments that contributed much to creating the problem, in a double sense. By sponsoring a growth of public institutions far more rapid than the gradual growth in private giving could begin to keep up with, they created great vulnerability. By changing from an approach to institutional accountability that emphasized excellence to one assuming a service model, they have brought about the kind of malaise to which they made institutions vulnerable.

In the area of state action there are positive and negative trends, also. On the positive side, the shrinkage of college-age cohorts now in prospect means that greatly augmented state appropriations are not inevitable and that states will have a chance to experiment with new funding devices. Part of what they save by reducing amounts in accordance with enrollment-based formulas can be allocated to project and incentive grants more consistent with institutional autonomy. They can also afford to be more forbearing, for example, by not seeking to control tuition receipts generated by the expanded federal student-aid programs. They could look at the higher education enterprise in terms of different budget concepts that would recognize the analogy between hiring faculty or starting a new program and the kinds of capital expenditures that must be written down and renewed.

On the negative side, legislators are eager to use savings of any kind for costly programs in other areas, or for taxpayer relief. It is hard to tell state legislators that funding mechanisms should be altered precisely when they start operating in favor of the state treasury rather than against it. And it is hard to expect state legislators to abandon use of the kinds of controls, increasingly subtle, that the professional budget analysts provide them for purposes that are benign and activist in intent. A whole generation of politicians has grown up with the assumption that

forbearance is almost corrupt. As for the professional budget analysts, they could certainly learn to use new tools. One has the impression, however, that they feel they have only begun to use the tools at their disposal for ferreting out real abuse and waste; and they may be right.

A Federal Role

Could the federal government possibly take action to restore the balance? A hope that it might do so may have been part of the impetus behind the efforts in the early 1970s to obtain enactment of a federal program of general institutional aid. A program was enacted in 1972 but never funded, and any hopes that it might ever be are now negligible. One of the reasons the program failed to materialize was that the case for discretionary funds, as opposed to basic support, was not clearly made; it perhaps could not have been made yet with much persuasiveness. Part of the problem was that the mechanism chosen for carrying out most of the proposals was an enrollment-driven formula. This kind of mechanism forced discussions to focus on the service functions of institutions to the exclusion of the autonomous functions. For this reason the general support grants were to be called "cost-of-education payments." Within this context, Congress asked the National Commission on the Financing of Postsecondary Education to come up with "national uniform standards for determining" annual per student costs, an action that may stand as the high-water mark of the faith that the problems of higher education could be resolved in the context of accountability to the present.

Since 1972 a political consensus has developed that federal support for higher education should primarily take the form of student aid and research grants. It can be argued that such federal assistance is, in principle, more supportive of the autonomy of colleges and universities than general institutional aid and certainly more supportive than aid based on enrollment-driven formulas. Student aid, in theory, embraces both the autonomous and service functions, since some of the costs of both are included in the tuition charges to be defrayed by student aid. Congress has so far failed to develop and fund a program structure in which the size of grant awards is consistently sensitive

to differences in tuition charges; hence this potential of a student-aid approach is far from being fully realized. But it could be, and appropriately so. The autonomous academic functions support the stimulation and range of students' academic programs, and there is nothing wrong, therefore, in using tuition revenues to pay part of the costs. Indeed, the participation of students in the academic life of the institution and their education of each other ideally follow the model of the autonomous functions in conserving what students of various backgrounds bring to the institution and providing opportunities for their contributions to converge.

Nonetheless, would it be appropriate to increase tuition levels in order to improve the balance between discretionary funds and nondiscretionary funds? The answer is plainly yes, but it is probably not an important practical issue for many institutions. There is no reason why students should not pay part of the cost of nonservice-oriented additions to their institution's library collections, for example, just as they commonly pay (at private institutions anyway) for the cost of an internally funded student-aid program that makes it possible for the institution to recruit a more diverse student body than it otherwise could. Still, the question of raising tuitions is increasingly an impractical one in that, in today's market conditions, institutions tend already to be charging as high a tuition as they can simply in order to support service functions, pay increased energy costs, comply with regulatory and contractual commitments, and, if public institutions, to cover shortfalls in state appropriations.

Federal support for research also has great potential for supporting the autonomous functions. Indeed, it has so supported them, although the trend of changing accountability standards seems to be in the direction of eroding this support. The most helpful development would be for Congress explicitly to convert indirect-cost allowances into payments that include indirect costs but also include an additional percentage allowance representing a part of the costs attributable to the distinctive way in which universities provide an environment for research. Such costs encompass both the conservative and opportunistic aspects of the autonomous functions. If the federal

government expects greater productivity in its research programs because of the mutual stimulation of ideas and the facility in combining ideas and people that universities make possible, then paying for these advantages makes sense, too. To include such an element in the calculation of research grant awards would, at the very least, give auditors and regulators a stronger sense that Congress does not envision their role as being antagonistic to the broad purposes of the institutions they deal with.

A Challenge Program

Balancing the factors favorable and unfavorable to greatly increased flows of discretionary funds from the several possible sources, and balancing also the opportunities and difficulties federal and state governments would have in modifying their funding concepts so as to make the quality of their funding more favorable, it seems unrealistic and risky to expect any one source of funds to take action that would restore the balance between discretionary and nondiscretionary funds. Yet all sources—except possibly tuition-paying students—could be expected to do something. It perhaps makes sense, therefore, to envision the kind of action that might right the balance as somewhat in the nature of the challenge grant programs used in institutional fund raising. If alumni, corporations, and federal and state governments could each count on the other parties to do their share, each could quite properly see its own action as having leverage to correct the imbalance by an amount exceeding its separate contribution. There could be many alternative understandings along these lines. To illustrate roughly, the following set of actions would eventually correct the imbalance of $1.5 billion projected for 1980–81 (if the illustrative assumptions hold) without calling for percentage increases in the contribution of any one party so large as to be obviously quixotic. Such increases in the discretionary funds provided by the various parties would seem neither large nor inconsistent with their existing funding roles in the different sectors of the higher education system. Further, this exercise does not imply nostalgia for better times. To be sure, it envisions a larger role for the

	Discretionary funds provided (in $ millions)	*Percentage increase from constant per student funding*
State government—Channeling 25% of savings attributable to an average 10% enrollment decline in the 1980s into nonformula-based funding mechanisms supportive of autonomy	$400	2.6%
Federal government—Funding indirect costs in research grant programs at rates 5 percentage points higher than audited costs would dictate	300	6.0
Philanthropy—Providing additional current funds and endowment income derived from gifts of alumni, other individuals, and corporations	800	23.0

traditional private sources of finance. But there is no suggestion of turning back the clock to the 1940s or 1950s when private gifts and endowment income probably provided 80 or 90 percent of discretionary funds. Rather, an increase in private funding should be accompanied by an effort by public authorities to recognize the implications of the role they have created for themselves and to match the private effort. The public still wants excellence in its institutions, and it, like private donors, must accept the fact that, if it wants colleges and universities to do work of excellence, considerable institutional autonomy in the use of funds is entailed. What is difficult is to persuade the parties that the problem is real and not an artifact of special pleading. The conditions of creativity in colleges and universities need to be widely thought about and clearly grasped, and their value to society affirmed. Only then are constructive changes in the financial support of higher education likely to take place.

Appendix A

Trends in Voluntary Support

Figures 1 through 6 update those prepared by Cheit and Lobman (1977) for the Commission on Private Philanthropy and Public Needs on the basis of data supplied by the Council for Financial Aid to Education. The original charts are figures 10 through 14 and 17 in Cheit and Lobman (1977, pp. 481-483, 485).

Figure 1. Percentage distribution of voluntary support of higher education by source, 1967 to 1978

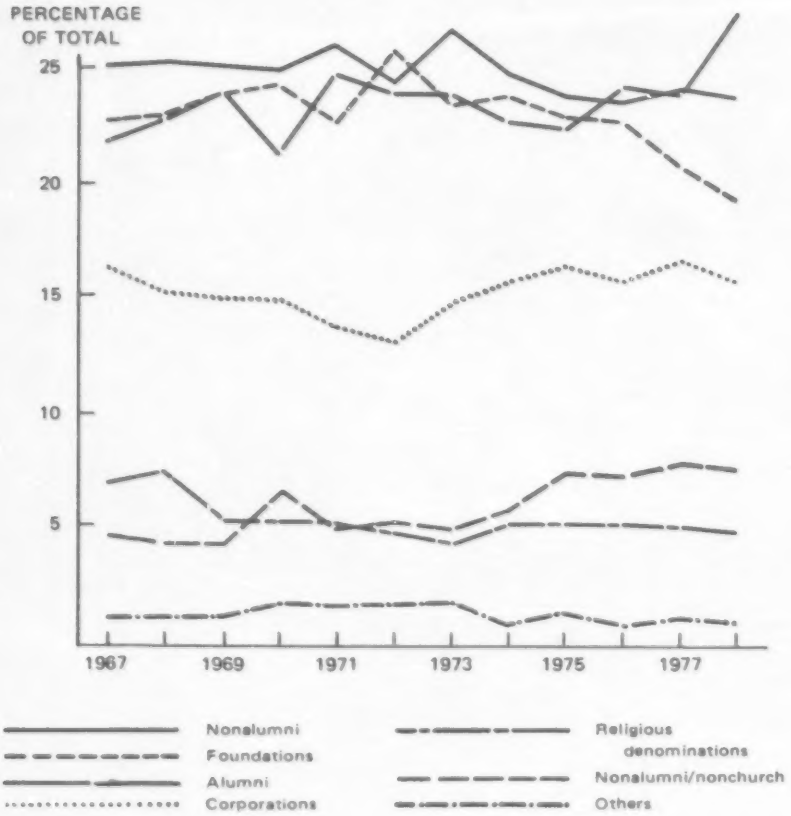


Figure 2. Percentage distribution of purposes of voluntary support of higher education by other individuals or families, 1967 to 1978

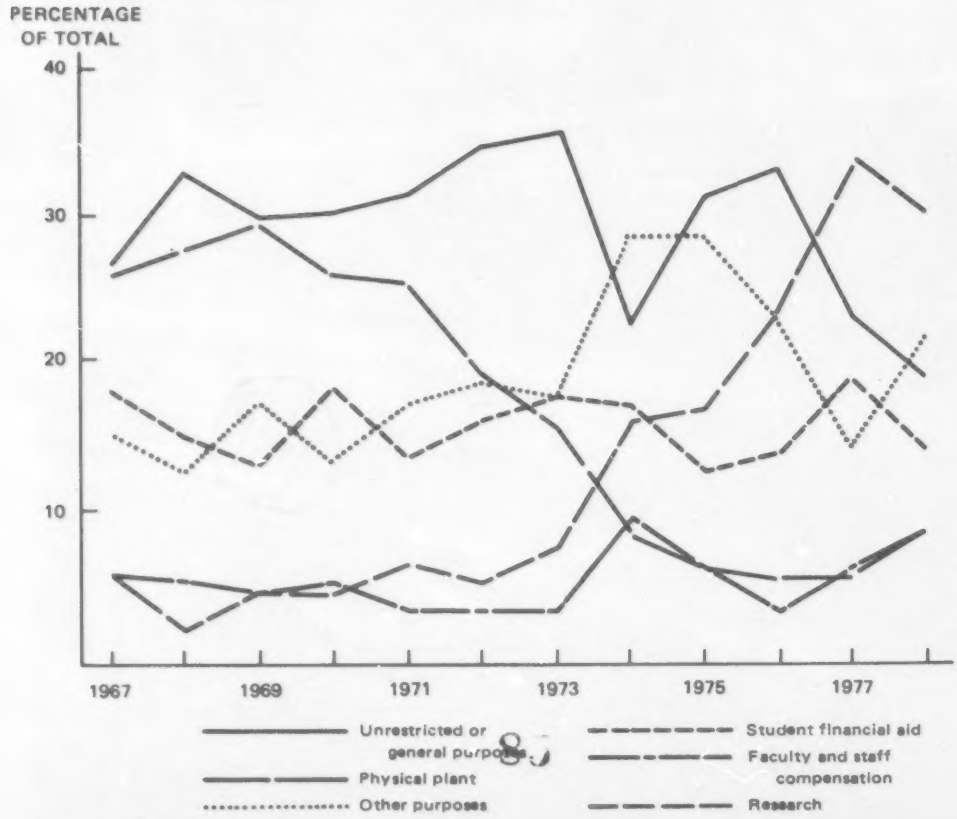


Figure 3. Percentage distribution of purposes of alumni support of higher education, 1967 to 1978

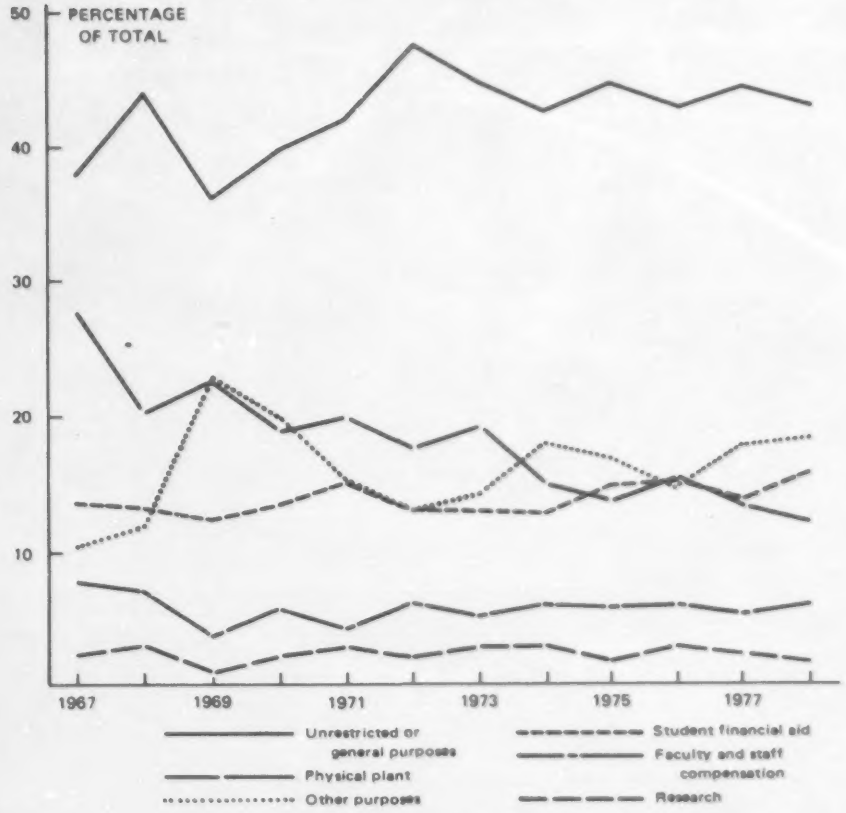


Figure 4. Percentage distribution of purposes of voluntary support of higher education by corporations (direct and indirect), 1967 to 1978

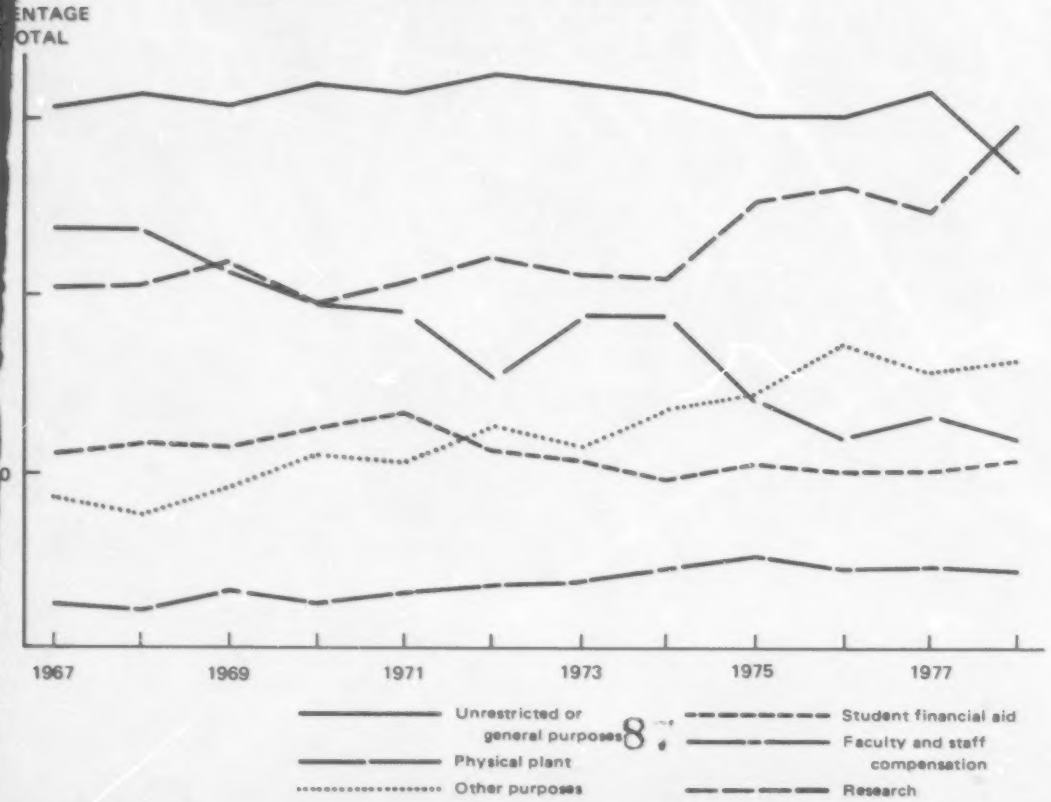


Figure 5. Percentage distribution of purposes of voluntary support of higher education by foundations, 1967 to 1978

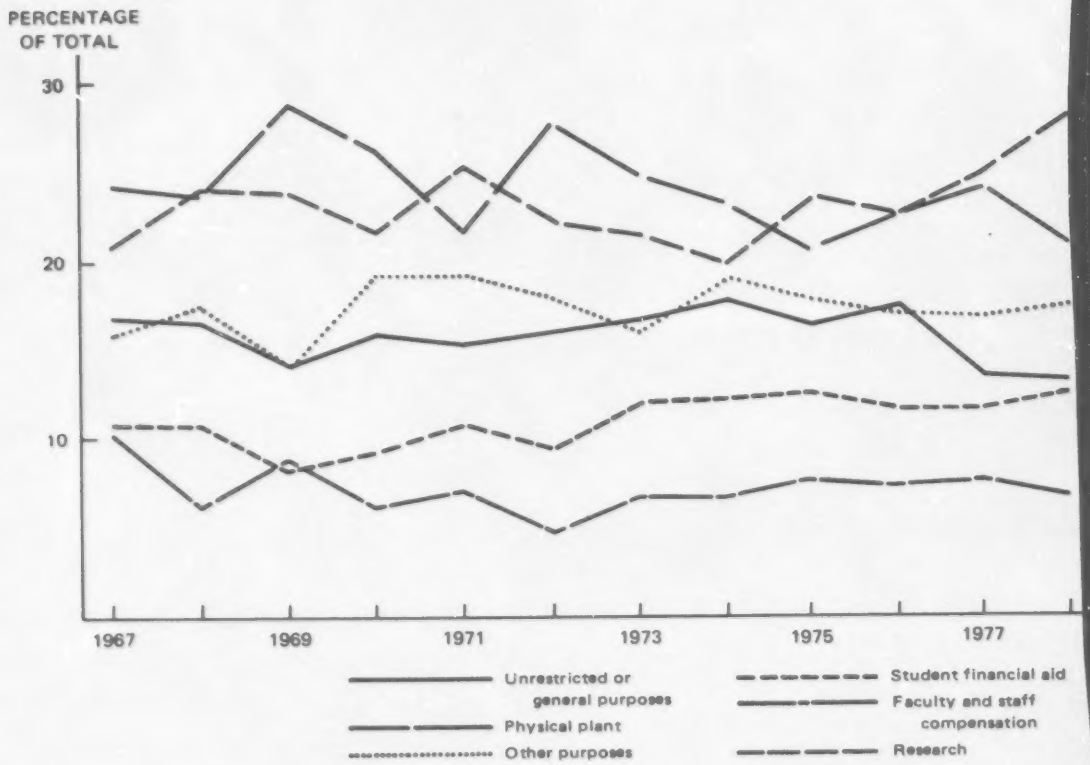
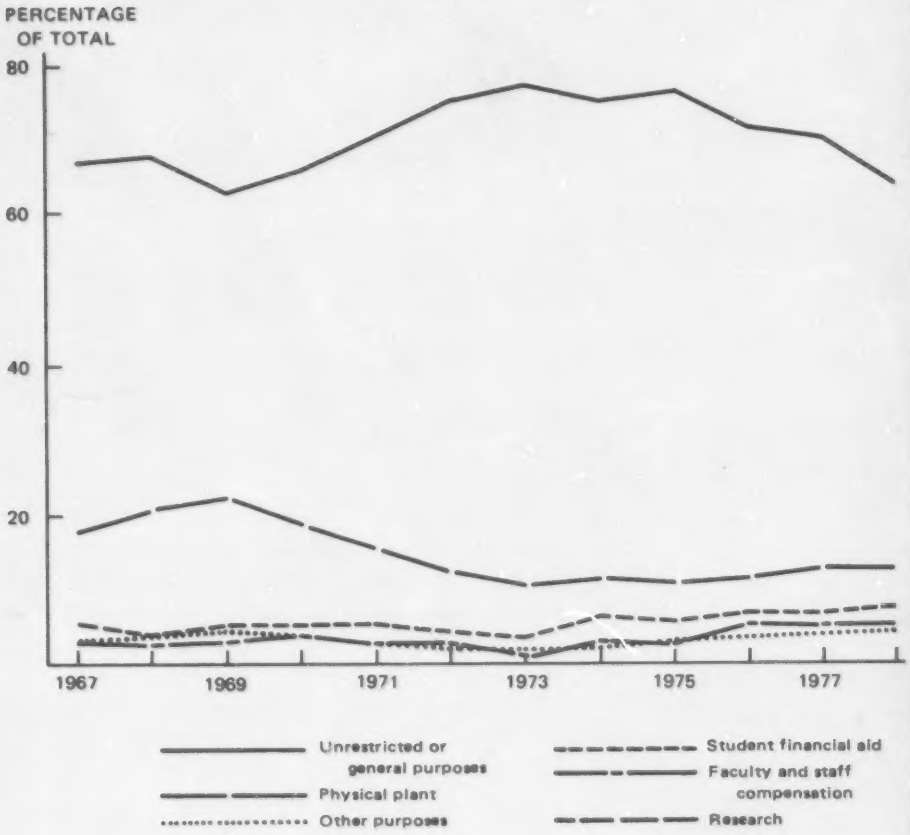


Figure 6. Percentage distribution of purposes of voluntary support of higher education by religious denominations, 1967 to 1978



Appendix B

The Roles of Private and Public Funding

The peculiar fact about American higher education—that public funds are important in the financing of private institutions and private funds in the financing of public institutions—is illustrated in Tables B-1 and B-2. There are, however, technical problems in presenting this point which the two tables do not altogether overcome. This is because the income of institutions is generally understood to include several items that are troublesome when an attempt is made to distinguish public from private sources. Tuition revenue and auxiliary-enterprise income include funds that originated in the various kinds of student aid. That is, student aid is used to pay the tuition, room, and board bills of some students. To arrive at figures which are comparable from year to year and to avoid double counting both student aid revenues and tuition, room, and board payments as revenues of institutions, student aid revenues have been excluded from the amounts shown in Tables B-1 and B-2. However, this solution is too sweeping. If aid comes from a public or private source, it

should be taken into account in arriving at an understanding of the relative roles of public and private financing, especially in a

Table B-1. Institutional gift and endowment funds as a percentage of current income of public institutions of higher education, 1939-1976

	Gift and endowment income (in $ millions)	*Percentage of current income*
1939-40	$ 11.8	3.3%
1949-50	28.2	2.3
1955-56	64.8	3.2
1961-62	121.0	3.0
1965-66	190.0	2.6
1970-71	400.0	2.6
1976-77	783.0	2.9

Sources: Carnegie Commission (1973), and Carnegie Council staff estimates.

Table B-2. Federal and state funds as a percentage of current income of private institutions of higher education, 1939-1975

	Federal funds		*State funds*		*Total*	
	$ millions	*Percentage*	*$ millions*	*Percentage*	*$ millions*	*Percentage*
1939-40	$ 2.4	0.7%	$ 7.7	2.2%	$ 10.1	2.8%
1949-50	278.3	24.7	27.7	2.5	306.0	27.2
1955-56	226.5	14.4	26.6	1.7	253.0	16.1
1961-62	771.1	23.7	48.5	1.5	819.6	25.2
1965-66	1,296.7	24.7	85.2	1.6	1,381.9	26.3
1970-71	1,610.0	18.8	110.0	1.3	1,720.0	20.1
1976-77	2,624.0	21.0	116.0	0.9	2,740.0	22.0

Sources: Carnegie Commission (1973), and Carnegie Council staff estimates.

period when student aid has become a major source of institutional revenues under other headings. Further, some student aid—now most importantly, bank-originated loans and much state grant aid—is not received by institutions as income except when used to pay students' bills. Such aid, through the tuition, room, and board revenues it generates, does augment institution income without any question of double counting. Yet, at the same time some portion of student aid of all kinds is spent off campus, the proportion varying among students according to the institutions they attend and their individual preferences. Accordingly, we cannot simply assume that all student aid funds end up sooner or later as institutional revenues to which we can assign a corresponding public or private origin. Empirical data that would resolve this set of problems are lacking.

Table B-3 is an attempt to avoid these problems by shifting the focus from institutional accounts as such to the sources

Table B-3. Nongovernment resources for higher education as a percentage of instructional, research, and subsistence outlays, by control of institutions, FY1968 and FY1977

	Public institutions		*Private institutions*		*All institutions*	
	FY1968	*FY1977*	*FY1968*	*FY1977*	*FY1968*	*FY1977*
Endowment income	0.4%	0.3%	6.2%	5.5%	2.5%	1.8%
Private gifts, grants, and contracts	2.4	3.9	11.5	13.8	5.6	6.7
Tuition revenues (net of tuition charges paid by student grants)	8.6	8.6	30.0	31.3	16.2	15.0
Student subsistence outlays (net of outlays offset by student grants)	22.6	16.8	20.6	17.9	21.9	17.1
Total nongovernment resources	33.9	29.6	68.2	68.5	46.1	40.7

Sources: U.S. National Center for Education Statistics, *Financial Statistics of Institutions of Higher Education*, appropriate years, Carnegie Commission (1973), and Carnegie Council staff estimates.

of funds for the central academic functions of colleges and universities and for the costs of students' subsistence, whether they obtain room and board on or off campus. However, it too has failings that should be noted:

1. It treats student loan funds as a nongovernmental resource in their entirety. Because of government subsidies and insurance, this is not really correct, but the proportion that represents a governmental source can be calculated in so many ways and varies so much over time with changes in interest rates that a more discriminating treatment seems impractical.
2. The row of figures representing nongovernmental payments for subsistence costs was calculated by assuming the subsistence costs calculated by Cartter and O'Neil in the standardized accounts prepared for Carnegie Commission (1973), adjusted only for the CPI inflator and enrollment counts. It is arguable that Cartter and O'Neil assumed unrealistically low costs, and it is almost certain that the typical student standard of living has risen since their work was done. The percentages in this row may therefore be too small, especially the figures for 1977.

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